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TREASURE STATE ENDOWMENT PROGRAM

PROJECT EVALUATIONS AND RECOMMENDATIONS FOR THE 1994 - 1995 BIENNIUM

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OFFICE OF THE GOVERNOR

STATE OF MONTANA

MARC RACICOT
GOVERNOR

STATE CAPITOL
HELENA, MONTANA 59620-0801

February 19, 1993

The Honorable Fred R. Van Valkenburg
President of the Senate
State Capitol
Helena MT 59620

The Honorable John A. Mercer
Speaker of the House
State Capitol
Helena MT 59620

Dear Mr. President and Mr. Speaker:

As you are aware, the Treasure State Endowment Program (TSEP) is a new state infrastructure financing program which was authorized by Montana voters with the passage of Legislative Referendum 110 on June 2, 1992. The referendum took effect on October 1, 1992.

Section 90-6-710, MCA, requires that the Department of Commerce receive and review proposals from local governments for public facility projects. The Department must evaluate and rank these proposals according to nine weighted statutory criteria and advise the Governor as to the order in which the projects should be funded and the form that funding should take.

The law further specifies that the Governor must review the projects recommended by the Department and must submit to the Legislature a list of recommended projects and recommended forms of financial assistance.

Accordingly, I have reviewed the process by which the Department has ranked the applications for financial assistance under the 1993 program and am satisfied that the applications have received thorough, professional, and fair consideration consistent with the requirements of the law. I endorse these recommendations and am transmitting them to the Legislature for its consideration.

TELEPHONE: (406) 444-3111 FAX: (406) 444-5529

The staff of the following state agencies assisted in this process:

-the Community Development Bureau of the Department of Commerce which is responsible for the implementation of TSEP;

-the Resource Development Bureau of the Department of Natural Resources and Conservation which generously shared its experience in administering the Water Development program and which provided staff to assist in the review and ranking of TSEP applications;

-the Water Quality Bureau and the Solid and Hazardous Waste Bureau of the Department of Health and Environmental Sciences which assisted in the review and ranking of TSEP applications for water, sewer, storm drainage, and solid waste projects, and

-the Project Analysis Bureau of the Department of Transportation which assisted in the review and ranking of TSEP applications for bridge projects.

This is an excellent example of what can be accomplished during this Administration by agencies working as a team towards a common goal.

Please contact Newell Anderson, Administrator of the Local Government Assistance Division, Montana Department of Commerce, in the event that you have any questions regarding the Treasure State Endowment Program, the next steps in the legislative process, or these recommendations.

Sincerely,

Marc Racicot

MARC RACICOT
Governor

cc: Representative Ernest Bergsagel, Chairman
House Subcommittee
Long Range Planning Committee

THE TREASURE STATE ENDOWMENT PROGRAM

PROJECT EVALUATIONS AND RECOMMENDATIONS FOR THE 1994 - 1995 BIENNIUM

MONTANA DEPARTMENT OF COMMERCE

JON D. NOEL, DIRECTOR

FEBRUARY, 1993

ACKNOWLEDGEMENTS

The new Treasure State Endowment Program (TSEP) was authorized by Montana voters with the passage of Legislative Referendum 110 on June 2, 1992.

The January, 1992 Special Session of the 52nd Montana Legislature appropriated $35,000 for immediate start up activities for the new program, but did not authorize any staff positions to carry out these activities. As a result, the implementation of TSEP has required special efforts by many dedicated state employees who, even though busy with their regular work responsibilities, put in extra hours to help make TSEP a reality this year. They were willing to put forward this extra effort because they are aware of how greatly Montana communities need the assistance that TSEP is designed to provide.

I would like to thank the staff of the following state agencies for their assistance in developing and implementing TSEP:

- the Community Development Bureau of the Department of Commerce;
- the Resource Development Bureau of the Department of Natural Resources and Conservation;
- the Water Quality Bureau and the Solid and Hazardous Waste Bureau of the Department of Health and Environmental Sciences; and
- the Project Analysis Bureau of the Department of Transportation.

Jon D. Noel, Director
Montana Department of Commerce

THE TREASURE STATE ENDOWMENT PROGRAM

SUMMARY

1. The Treasure State Endowment Program (TSEP) is a new state infrastructure financing program which was authorized by Montana voters with the passage of Legislative Referendum 110 on June 2, 1992.

2. TSEP is a grant and loan program funded with coal severance tax revenues designed to assist cities, towns, and counties in financing the following eligible public facilities projects: drinking water systems, wastewater treatment facilities, sanitary or storm sewer systems, solid waste disposal and separation systems, and bridges.

3. Current estimates are that approximately $2,102,625 in coal severance tax interest will be available for TSEP assistance to local governments for fiscal years 1994 and 1995.

4. TSEP funding requests must be approved by the Legislature. The deadline for 1993 TSEP applications was December 31, 1992. The Department of Commerce (DOC) will solicit applications on a biennial cycle.

5. DOC is required to review TSEP project proposals and prepare a list of recommended projects, giving preference based on nine statutory priorities. DOC is also required to recommend the form of financial assistance for each project.

6. Matching grants, debt service subsidies, and loans will be awarded on a competitive basis to local governments that demonstrate that they have serious public facility needs and a limited financial capacity to meet these needs.

7. The January, 1992 Special Session of the 52nd Montana Legislature appropriated $35,000 for start up activities for the new program, but did not authorize any staff positions to carry out these activities.

8. The 1993 Legislature has the option of adding any construction loans authorized under TSEP to the list of loans approved under the Water Development Program administered by the Montana Department of Natural Resources and Conservation (DNRC). The loans for these projects could be funded through a state bond issue backed by coal severance tax receipts. Given the existing commitments for outstanding bonds and currently authorized projects, a total of approximately $33 million in bonding capacity would be available to the 1993 Legislature to authorize loans for additional projects through the DNRC Water Development Program and TSEP.

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A. INTRODUCTION

The Treasure State Endowment Program (TSEP) is a new state infrastructure financing program which was approved by 62% of Montana voters with the passage of Legislative Referendum 110 on June 2, 1992. The referendum, which took effect on October 1, 1992, is now codified as sections 90-6-710 of the Montana Code Annotated (MCA).

The referendum states that the purposes of TSEP include creating a partnership between the state and local governments to make necessary public improvements affordable and coordinating and improving the financing of infrastructure projects by federal, state, and local governments, as well as private sources.

Enclosed with this report is a copy of the Application Guidelines prepared and adopted by the Montana Department of Commerce for this biennium's TSEP. The guidelines outline the application requirements for cities, towns and counties requesting TSEP financial assistance for the construction of drinking water systems, wastewater treatment facilities, sanitary or storm sewer systems, solid waste disposal and separation systems, and bridges.

B. AMOUNT OF TSEP FUNDS AVAILABLE IN FISCAL YEARS 1994 AND 1995

Section 90-6-701 (2) provides that interest from the Treasure State Endowment Fund and from proceeds from the sale of bonds may be used to provide financial assistance for local government infrastructure projects.

Beginning July 1, 1993 (and ending on June 30, 2013), TSEP will earn interest from the Treasure State Endowment Fund. In addition, Legislative Referendum 110 provides that on July 1, 1993, $10 million will be transferred from the coal severance tax permanent fund to the Treasure State Endowment Fund. This initial $10 million will "capitalize" TSEP in order to provide additional interest income for funding TSEP projects. (Appendix A includes diagrams and tables which describe the flow of coal severance tax funds to the Treasure State Endowment Fund.)

Current estimates as of February, 1993, are that approximately $2,282,489 in Treasure State Endowment Fund interest will be available for TSEP assistance to communities for fiscal years 1994 and 1995, after deducting budgeted administrative expenses.

Legislative Referendum 110 also provides that the 53rd Legislature may authorize the issuance of bonds in order to provide the maximum amount of initial funding for TSEP.

C. PUBLIC INVOLVEMENT IN THE DEVELOPMENT OF TSEP

Although faced by very tight time constraints, the Department of Commerce (DOC) made every effort to coordinate with other federal and state agencies and to assure public involvement in the development of the guidelines for the new program.

On August 27th, a special meeting of WASACT (Water and Sewer Agencies Coordinating Team) was held to review a preliminary draft of the TSEP Application Guidelines. WASACT membership includes representatives of the:

- Department of Natural Resources and Conservation, Water Development Program,
- Department of Health and Environmental Sciences, Water Quality Bureau,
- Department of Health and Environmental Sciences, State Revolving Fund (which provides loans for wastewater projects),
- DOC Community Development Block Grant Program,
- DOC Community Technical Assistance Program,
- Board of Investments INTERCAP Program,
- Midwest Assistance Program (a federally-funded private non-profit organization which provides assistance to small communities in planning and financing public facilities),
- Montana Rural Water Systems (a private non-profit organization which provides technical assistance to small communities in managing rural and small community water systems),
- Montana Water and Sewer Districts Association,
- U.S. Economic Development Administration, and
- U.S. Rural Development Administration (formerly Farmers Home Administration).

- In mid-September, over 900 copies of a draft version of the TSEP Application Guidelines were mailed to local officials and other individuals on DOC mailing lists, including all counties and municipalities and state legislators. The mailings included a schedule for 10 TSEP public hearings to be held statewide from September 26 to October 9, 1992.

- DOC sent press releases announcing the public hearings to the newspapers in the 10 communities where the TSEP hearings were scheduled as well as the major wire services.

- In mid-October, DOC staff prepared a summary of the comments received at the 10 public hearings and other oral and written comments received regarding the draft version of the TSEP guidelines. Copies of the summary were sent to over 220 persons, including all of those who commented or participated in the hearings. Copies of the summary and the final draft of the TSEP Application Guidelines were sent to each member of the 1993 Legislature.

- Over 150 local officials and other interested persons attended the hearings or wrote or telephoned DOC. The final draft of the TSEP Application Guidelines was developed in light of those comments.

NOTE: A summary of the public comments received on the proposed TSEP Application Guidelines and TSEP, in general, is included in Appendix B.

D. LEGISLATIVE CONSIDERATIONS

Although the final draft of the TSEP Application Guidelines attempted to address as many of the public comments as possible, several of the concerns expressed at the public hearings can be addressed only through legislative action. The major public concerns were:

1. The limited amount of funding available through TSEP.

Many commented that the amount of TSEP funds projected to be available for local public facilities projects is insufficient to meet the needs of Montana's communities.

2. Problems created by the biennial review cycle.

A large number of persons commented that the biennial review cycle for TSEP is not responsive enough and will make it difficult for communities to effectively combine TSEP funding with federal funding programs or to use TSEP funds for local economic development projects which require a more timely commitment from funding sources.

3. Funding Delays

Assuming that past legislative policy for the award of Water Development Program funding is also applied to TSEP, grant funds would be disbursed to communities according the ranked order of priority of the projects approved by the Legislature as interest income is earned incrementally on the Treasure State Endowment Fund. This means that applicants whose projects have been approved for funding may have to wait for up to two years for their TSEP funds.

During the public hearings, several persons stated that this delay would further complicate the difficulty of combining TSEP funding with federally funded public facilities programs such as those administered by the Rural Development Administration (formerly Farmers Home Administration) and the Community Development Block Grant (CDBG) Program administered by DOC. Both of these programs have "use it or lose it" requirements that mandate that funds be committed to active projects within restricted time frames; if the federal funds are not committed within the required time limit, they are reallocated to other states.

There has been some discussion of the option of issuing "jump start" bonds in order to increase the number of grants which could be awarded by the 1993 Legislature. The bonds would be financed by future interest income from the Treasure State Endowment Fund. The issuance of these bonds would also resolve the problem of funding delays.

4. Water, sewer, and solid waste districts should be able to apply directly for TSEP funding instead of having a county government apply on their behalf.

County commissioners, special district representatives, and the bond counsel for the State recommended this change. Most stated that it is inappropriate to require a county government to assume responsibility for a special purpose district's financial obligation to the State.

Senate Bill 316, submitted to the 53rd Legislature by Senator Thomas Towe of Billings, addresses this issue.

5. **TSEP should provide funding to help communities prepare preliminary engineering plans.**

DOC received more comments on this issue than any other. The lack of funding to prepare preliminary engineering studies is viewed as a major obstacle to communities in developing and constructing local public facilities projects, not just for TSEP but for all state and federal funding programs. Given the financial constraints imposed by I-105, few communities have sufficient reserves to fund needed engineering studies.

The provision of loans for preliminary engineering would help address the criticisms regarding the biennial review cycle. If a community is able to prepare a preliminary engineering plan for a public facility project, it will then be able to pursue financial assistance through other state or federally funded programs during the interim year between legislative sessions.

The final draft of the TSEP guidelines includes a provision for deferred loans for this purpose. As proposed, repayment would be deferred until the project moves to construction. The community would repay the engineering loan when financing, such as through the issuance of revenue bonds, is arranged for final engineering and construction.

Senate Bill 316, submitted to the 53rd Legislature, addresses this issue. The bill would explicitly authorize deferred loans to fund preliminary engineering. The Legislature may wish to consider the option of establishing a special setaside of a percentage of available TSEP funds for preliminary engineering loans.

6. **Each of the three authorized forms of TSEP financial assistance has advantages and weaknesses. The Legislature's decision on the preferred options for assisting local government public facilities projects will have important consequences for the administrative complexity of TSEP and on State fiscal policy.**

a) Matching Grants [Section 90-6-703 (1), MCA]

An independent DOC study funded by the EPA in 1990 concluded that the principal reason that so many public facilities continue to be deficient is that most options for correcting deficiencies are not considered to be affordable by local residents. The report concluded that, "The most important action that the state and federal government can take to address the problem of affordability is to provide additional grant funds for public improvements to small low-income communities."

Grants help make local public facilities projects more affordable by reducing the amount of funds that a community needs to borrow. Every dollar of grant funds is one less dollar on which the community will have to pay interest and bond underwriting charges and one less dollar to consider in setting bond reserves and "coverage" requirements that raise local user charges. Grants offer a "pay as you go" approach which would be far easier to administer than

a debt service subsidy. Communities can more easily combine a TSEP grant with a private market bond or a loan from an existing public loan program, at the most advantageous terms available.

However, at the funding levels available for TSEP in the first biennium, only a limited number of projects could be funded with grants. As was noted above, there has been some discussion of issuing "jump start" bonds in order to increase the number of grants which could be awarded by the 1993 Legislature. The bonds would be financed by future interest income from the Treasure State Endowment Fund.

All of the 29 applications received for construction projects requested grant funds. (One applicant requested a grant/loan combination.)

b) Debt Service Subsidies [Section 90-6-703 (2), MCA]

The second financing alternative authorized by Legislative Referendum 110, a "debt service subsidy," was labeled a "grant on the installment plan" during the public hearings. A debt service subsidy would require a long-term commitment from the State to pay a portion of the debt service on a local bond issue each year for a specified number of years. Proponents of this financing mechanism have suggested that it would be a way to fund a larger number of projects with the limited TSEP funds because the State would obligate a smaller amount of TSEP funds each year per project, as opposed to a one-time, up-front TSEP grant.

This alternative is a new financing concept that has never before been utilized in Montana. The bond underwriting authorities DOC consulted stated that the financial community would not be receptive to this option unless the debt service subsidy would be provided for the full term of the bond. In addition, they stated that, because of the uncertainty of coal tax revenues, the bond market would demand an "ironclad" commitment from the State, backed by the State's full faith and credit or by a commitment of coal severance tax trust funds.

None of the 29 applications received for construction projects requested the debt service subsidy option.

c) Direct State Loans with an Interest Rate Subsidy
[Section 90-6-703 (3), MCA]

The third alternative, direct state loans with an interest rate subsidy, would provide for repayments of loans to the State. However, the option of direct state loans was criticized by some who felt that another state loan program might duplicate the loan programs already available through the Department of Natural Resources and Conservation, Water Development Program and the EPA-funded State Revolving Fund for sewer and wastewater treatment loans administered by the Department of Health and Environmental Sciences. Another criticism of state loans was that since the loan funds are provided by State-issued bonds and are secured by local bonds, the loan funds for a TSEP project would be considered a financial obligation of the State and the local government, reducing the total capacity of both to issue bonds for other

purposes. Many persons commented that there were already ample sources of loan funds through private sector bonds or existing government loan programs.

A 1991 study by MSU's Local Government Policy Center concluded that:

> ...a system of supplemental grants and other financial adjustments should be implemented if small Montana communities are to avoid further deterioration of their water/wastewater systems ....By themselves, low interest loans will be of little assistance.

Only one of the 29 applications received for construction funding requested loan funds. In this case, the applicant requested a grant/loan combination.

(An article in the Fall, 1992 Montana Policy Review by Kenneth L. Weaver of MSU examined the likely effectiveness of the financing options available under TSEP for Montana communities of various sizes. A copy is reproduced in Appendix C.)

7. Statutory Priorities for TSEP Projects

Two additional issues were identified during the review and ranking of the TSEP applications which the Legislature may wish to address this session. Both involve the statutory priorities for TSEP projects contained in 90-6-710, MCA.

a. During the TSEP public hearings last fall, the suggestion was made that an additional TSEP ranking priority should be added to consider the soundness and cost-effectiveness of the technical solution proposed in the TSEP application. The DOC Community Development Block Grant Program (CDBG) and the DNRC Water Development Program currently incorporate similar criteria to evaluate the technical feasibility of proposed projects. In DOC's 11 years of reviewing public facility applications, it has not been uncommon to receive applications from communities with serious health threats but which have proposed engineering solutions that DHES considers inappropriate or excessively costly. DOC suggests that the third rank of priority read as follows:

> "(c) projects that incorporate appropriate, cost-effective technical design and provide thorough, long-term solutions to community public facility needs;"

DOC also recommends that the existing seventh priority receive greater weight. We suggest that local financial need be placed in the fourth rank of priority:

> "(d) projects that reflect greater need for financial assistance than other projects;"

b. Given the limited amount of TSEP funds that are available, relative to the high demand by local governments for financial assistance, we believe

that the overall ranking should place greater emphasis on the relative need of each applicant for TSEP assistance. During the fall, 1992 public hearings, there was a strong consensus among the local, state, and federal officials, state legislators, and others attending that applicants for TSEP funds should participate in the funding of any project in proportion to their financial capability. In addition, during the legislative discussions of TSEP, several legislators stated that communities must make maximum local effort to pay for public facility projects before asking the State for financial assistance. Under the current order of priority, a community could rank high overall due to health-related issues alone, even though it has the financial capacity to fund a project without TSEP assistance.

DOC believes that these changes would make the application ranking priorities and the likely results of the ranking process more consistent with the overall intent of the existing law.

Senate Bill 316, submitted to the 53rd Legislature, would address both of these concerns regarding the statutory priorities.

Conclusion

It is not unusual for the implementation of a new state program to raise issues which require additional consultation between the executive and legislative branches of government. This is especially the case for a new program which provides for state participation in the complex field of public facilities financing. We look forward to working with the Montana Legislature to ensure that the Treasure State Endowment Program efficiently and effectively accomplishes the purposes set out by the Legislature and approved by Montana voters.

E. APPLICATION RANKING

1. Statutory Order of Priority for TSEP Projects

Legislative Referendum 110 [Section 90-6-710 (1), MCA] requires DOC to recommend a list of projects for TSEP funding, giving preference according to the statutory order of priority for projects and to recommend the form of financial assistance for each. A declining numerical score was assigned to each succeeding criterion to reflect the statutory order of priority for funding TSEP projects. This weighting system allows DOC to objectively rank the projects in a manner that is accountable to the statutory priorities. The weighted point system also assures that applications are being evaluated consistently and fairly.

The TSEP statutory priorities and the numerical score assigned to each by DOC are as follows, in order:

#1. projects that solve urgent and serious public health or safety problems;

900 POINTS

#2. projects that enable local governments to meet state or federal health or safety standards;

800 POINTS

#3. projects that enable local governments to obtain funds from sources other than TSEP;

700 POINTS

#4. projects that provide long-term, full-time job opportunities for Montanans;

600 POINTS

#5. projects that provide public facilities necessary for the expansion of a business that has a high potential for financial success;

500 POINTS

#6. projects that result in a benefit to the public commensurate with the amount of financial assistance requested;

400 POINTS

#7. projects that reflect greater need for financial assistance than other projects;

300 POINTS

#8. projects that maintain or do not discourage expansion of the tax base; and

200 POINTS

#9. projects that are high local priorities and have strong community support.

100 POINTS

TOTAL MAXIMUM POSSIBLE POINTS = 4500 POINTS

2. Application Ranking Procedures for the 1993, TSEP Competition

DOC made every effort to provide an objective, systematic process for evaluating the degree to which each proposed TSEP public facility project responded to the statutory priorities established for TSEP.

Each 1993 TSEP applicant was required to submit a narrative as part of its application which described the relationship of the proposed TSEP project to the statutory priorities for TSEP projects. Applications were evaluated by applying the statutory ranking priority against the applicant's response to each priority and the proposed project activities.

Because no purely quantitative measures exist which can anticipate the variety of potential public facility needs and all responses to them, the ranking had to be partially subjective. In evaluating the applications the Department took into account not only how well each applicant addressed each statutory priority, but also how its problems and response compared with those of other applicants.

The score recommended for each application was based upon the extent to which the proposed project appeared to be consistent with and responded to each statutory priority, in comparison to the other TSEP applications submitted, as follows:

MOST CONSISTENT	Total Available Points
MORE CONSISTENT	Three-Fourths Available Points
GENERALLY CONSISTENT	One-Half Available Points
LEAST CONSISTENT	One-Fourth Available Points
NOT APPLICABLE	Zero Points

The ranking teams compared each applicant's response to the nine statutory priorities by asking a series of questions related to each priority. The nine priorities and the questions considered under each are described in Appendix D.

Ranking scores for Statutory Priorities #1 and #2 were assigned by appropriate state agencies:

- the Project Analysis Bureau of the Department of Transportation reviewed and ranked applications for bridge projects;

- the Solid and Hazardous Waste Bureau of the Department of Health and Environmental Sciences reviewed and ranked applications for solid waste projects; and

- Water Quality Bureau of the Department of Health and Environmental Sciences reviewed and ranked applications for water, sewer, and storm drainage projects.

Ranking scores for Statutory Priorities #3 through #9 were assigned by staff from the Community Development Bureau of the Department of Commerce and the Resource Development Bureau of the Department of Natural Resources and Conservation.

The ranking teams established for the review of TSEP applications served in an advisory capacity to the DOC Director regarding the TSEP applications. In some cases, the ranking teams also recommended conditions which should be recommended to the Legislature for proposed projects, in the event the application is selected for funding. The final decision on the applications to be recommended to the Governor and the amount and form of financial assistance to be recommended was made by the DOC Director.

Summaries of the applications submitted for funding through the 1993 TSEP are included in Appendix E.

A list of the applications submitted for funding through the 1993 TSEP and the priority score and funding amount recommended for each is included in Appendix F.

3. Financial Analysis of TSEP Applications

Statutory Priority #7 gives preference to:

Projects that reflect greater need for financial assistance than other projects.

There was a strong consensus among the local, state and federal officials, representatives of private sector bond underwriting firms, and the other persons who commented on the September draft guidelines that applicants for TSEP funds should participate in the funding of any public facility project in proportion to their financial resources.

Likewise, during the legislative discussion of TSEP , several legislators expressed their concern that communities must pay for public facility projects with their own resources before turning to TSEP for help and that communities should make maximum local effort before asking the State to subsidize a local project.

The need for objective procedures for assessing local participation is also vital if TSEP is to maintain long-term public confidence and avoid charges of favoritism or political influence in the awarding of TSEP funds. In conducting its background research to identify alternative methods for determining what is a reasonable level of local financial effort, DOC reviewed the practices followed in other state and federal infrastructure financing programs.

The September 1992 draft of the TSEP Application Guidelines proposed to use a guideline adapted from those used by the U.S. Rural Development Administration [RDA] (formerly U.S. Farmers Home Administration), Montana's Community Development Block Grant Program, and the former EPA Wastewater Construction Grants Program to determine "reasonable local effort" for financing sewer and water projects. This approach is based on the assumption that the ability to pay a particular user rate is related to the average income level in a community and that communities with higher average incomes can afford higher user rates than those with lower average incomes.

For example, based on 1990 Census data, the 1989 median household income for Montana was $22,988. According to RDA, current monthly user charges for recently improved water and sewer facilities are averaging about $30 per month, including $5-10 charges for operation and maintenance. This amount calculated on an annual basis equals $360 or an amount equal to about 1.5% of Montana's median family income. During the review of the 1993 TSEP applications, 1.5% of the community's median household income (MHI) was used as a general guide to determine whether a community's charge for sewer or water services demonstrated "reasonable local effort."

Those attending DOC's fall public hearings generally supported the use of the percentage of MHI calculation as a guideline for comparing local effort for water and sewer projects. However, many local officials commented that the analysis of local financial capability should look more comprehensively at other indicators in comparison to local median household incomes such as overall local taxes; total water, sewer, and solid waste fees, and total bonded indebtedness.

In response to public comments, the final guidelines incorporate several objective financial indicators for comparing local participation in TSEP-assisted water and sewer projects, while retaining the flexibility to recognize extreme hardship situations in which a local government has minimal capacity to participate financially.

Unlike the situation with water and sewer projects, there are no generally accepted standards for determining a community's ability to afford projects such as bridges, storm sewers, and solid waste disposal systems. DOC based its financial analysis of these projects on a comparison of projected per

household fees or assessments for applicants submitting similar projects for TSEP assistance.

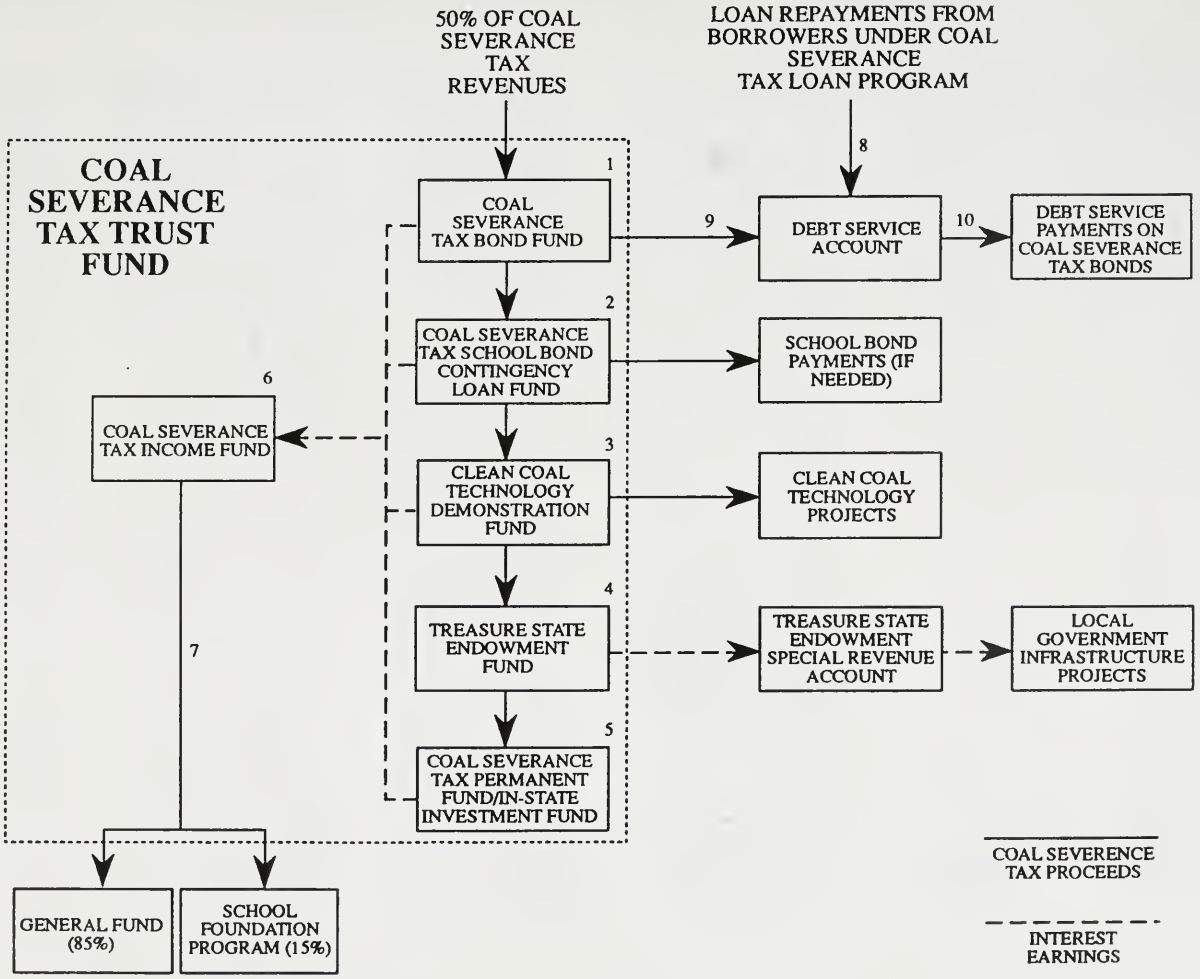
Appendix G includes a description of the procedures used to analyze the financial ability of each TSEP applicant to share in the cost of proposed infrastructure improvements.

APPENDIX A

REVENUE FLOW CHARTS FOR THE TREASURE STATE ENDOWMENT FUND

COAL SEVERANCE TAX TRUST FUND
FLOW OF FUNDS SUMMARY

JANUARY 1993



(1) Within 30 days of the end of each calendar quarter, coal severance taxes are paid to the state, 50 percent of which are deposited in the **Coal Severance Tax Trust Fund** (the **Trust**). Six accounts are established within the **Trust**: 1)the **Coal Severance Tax Bond Fund**, 2) the **School Bond Contingency Loan Fund**, the **Clean Coal Technology Demonstration Fund**, 4) the **Treasure State Endowment Fund**, 5) the **Coal Severance Tax Permanent Fund** (within which is established the **In-state Investment Fund**), and 6) the **Coal Severance Tax Income Fund**.

Coal tax revenues which flow in to the **Trust** are initially deposited in the **Bond Fund** and made available for payment of debt service on the Coal Severance Tax Bonds (see footnotes 8, 9, and 10). All amounts in excess of the amount needed to secure outstanding Coal Severance Tax Bonds for the next two ensuing semiannual payments shall be transferred to the **Coal Severance Tax School Bond Contingency Loan Fund**.

(2) The January 1992 Special Legislative Session passed an Act creating the **Coal Severance Tax School Bond Contingency Loan Fund**. A total of $25 million of School Bonds were authorized to be issued and secured by this fund. For as long as there are any outstanding school district bonds secured by the **Contingency Loan Fund**, an amount equal to the next 12 months of principal and interest payments due on any School Bonds will be retained in the **Contingency Loan Fund**. Any amounts in excess of the balance needed to secure outstanding School Bonds, shall be transferred to the **Clean Coal Technology Demonstration Fund**.

(3) The 1991 Legislature passed an Act creating the **Clean Coal Technology Demonstration Fund**. On July 1, 1991, $25 million was transferred into the **Demonstration Fund**. From July 1, 1991 through June 30, 1997, a maximum of $5 million per year will be transferred into the **Demonstration Fund** from the **Contingency Loan Fund**. In total a maximum of $55 million will be deposited in the **Demonstration Fund**. Any amounts in excess of the $5 million retained in the **Demonstration Fund** will be transferred to the **Treasure State Endowment Fund**.

(4) The **Treasure State Endowment Fund** was established when voters approved the measure on the June 2, 1992 ballot. All funds in excess of what is retained in the **Bond Fund**, the **Contingency Loan Fund**, and the **Demonstration Fund** will be deposited in the **Endowment Fund**. Annually, interest earnings required to meet the obligations of the state under this program are transferred to the **Treasure State Endowment Special Revenue Account**. Interest earnings not transferred to the **Revenue Account** are to be retained in the **Endowment Fund**. From time to time 50 percent of the principal transferred into the **Endowment Fund** will be transferred to the **Permanent Fund**.

(5) Twenty-five percent of the receipts to the **Coal Severance Tax Permanent Fund** are segregated into the In-state Investment Fund. As the name indicates, the purpose of this sub-fund is making investments in Montana.

(6) Investment income on the monies in the **Bond Fund**, the **Contingency Loan Fund**, the **Demonstration Fund**, and the **Permanent Fund** are periodically transferred to the **Income Fund**. The only exception to this is the **Endowment Fund** where any interest earnings are either transferred to the **Revenue Account** or retained in the **Endowment Fund**.

(7) Eighty-Five percent of the balance in the **Income Fund** is transferred to the state's **General Fund**; the remaining 15 percent is transferred to the state's **School Foundation Program**.

(8) Under the Coal Severance Tax Loan Program, the state sells coal severance tax bonds and loans the proceeds to local government entities for various water projects. The borrowers make semiannual loan payments, which upon receipt are credited to a **Debt Service Account**. The terms of the loans vary, but generally involve an interest rate subsidy for the first five years of the loan followed by a direct pass-through of interest rate on the Bonds for the remaining life of the loan.

The Act creating the **Endowment Fund** also expanded the loan authority from strictly water projects and now includes all local government infrastructure projects approved under this Act.

(9) Debt service payments on the Bonds are due each June 1 and December 1. To the extent funds on hand in the **Debt Service Account** from loan repayments are insufficient to pay principal and interest on the Bonds when due, funds are transferred to the **Debt Service Account** from the **Bond Fund**.

(10) On each June 1 and December 1, the state pays debt service on the Bonds from amounts on hand in the **Debt Service Account**.

MECHANICS OF COAL TAX REVENUE DEPOSITS FOR LOCAL INFRASTRUCTURE ASSISTANCE

TREASURE STATE ENDOWMENT PROGRAM (TSEP)

Annual Coal Tax Revenue
$ 40,000,000
$-20,000,000 earmarked programs
$ 20,000,000 Balance
↓
PERMANENT TRUST
↓
minus $ 500,000/yr. for Coal Sev. Tax Bonds
↓
minus $ -0- /yr. for School Const. Bond Special
↓
minus $ 5,000,000/yr.for 3 yrs. Clean Coal
= **$14,500,000***

Operating Year	Annual Deposits to Perm. Fund Principal	Annual Deposits to TSEP Fund Principal	Est. Annual Interest Available for Distrib.
1 FY '94	$ 7,250,000	$ 7,250,000	$ 1,013,136
	(10,000,000)	$ 10,000,000	
2 FY '95	$ 7,250,000	$ 7,250,000	*$ 1,653,748*
3 FY '96	$ 7,250,000	$ 7,250,000	*$ 2,395,000*
4 FY '97	$ 9,750,000	$ 9,750,000	*$ 3,175,000*
5 FY '98	$ 9,750,000	$ 9,750,000	*$ 3,955,000*
6 FY '99	$ 9,750,000	$ 9,750,000	*$ 4,735,000*
7 FY '00	$ 9,750,000	$ 9,750,000	*$ 5,515,000*
8 FY '01	$ 9,750,000	$ 9,750,000	*$ 6,295,000*
9 FY '02	$ 9,750,000	$ 9,750,000	*$ 7,075,000*
10 FY '03	$ 9,750,000	$ 9,750,000	*$ 7,855,000*
11 FY '04	$ 9,750,000	$ 9,750,000	*$ 8,635,000*
12 FY '05	$ 9,750,000	$ 9,750,000	*$ 9,415,000*
13 FY '06	$ 9,750,000	$ 9,750,000	*$ 10,195,000*
14 FY '07	$ 9,750,000	$ 9,750,000	*$ 10,975,000*
15 FY '08	$ 9,750,000	$ 9,750,000	*$ 11,775,000*
16 FY '09	$ 9,750,000	$ 9,750,000	*$ 12,535,000*
17 FY '10	$ 9,750,000	$ 9,750,000	*$ 13,315,000*
18 FY '11	$ 9,750,000	$ 9,750,000	*$ 14,095,000*
19 FY '12	$ 9,750,000	$ 9,750,000	*$ 14,875,000*
20 FY '13	$ 9,750,000	$ 9,750,000	*$ 15,655,000*
21 FY '14	$19,500,000	$ - 0 -	*$ 15,655,000*
TOTALS	**$207,000,000**	**$197,500,000**	*$180,791,884*

* Changes to $ 19,500,000 in year 1997.
Years '94 & '95 projected at 8.26% & 8.56% interest earning rate, respectively.
Years '96 & on, projected at 8% interest earnings rate.

"TREASURE STATE ENDOWMENT PROGRAM"

The Definitions of the Act: (LR 110)

1. Creates a Treasure State Endowment Fund & Program (TSEP). (effective 10/1/92)
2. Provides for a 50% TSEP Fund / 50% Permanent Trust Fund deposit of uncommitted annual coal severance tax receipts.
3. Authorizes interest from TSEP fund to be spent on grants, debt service subsidies, and loans to local governments.
4. Transfers $10 million (one time) from the permanent trust to the TSEP fund. (effective 7/1/93)
5. Provides that the 53rd legislature may authorize the issuance of bonds in order to provide the maximum amount of initial funding.
6. Defines eligible projects as: drinking water systems; wastewater treatment; sanitary sewer or storm sewer systems; solid waste disposal and separation systems, including site acquisition, preparation or monitoring; and bridges.
7. Expands the coal severance tax bond program & amend 17-5-701 and 17-5-703, MCA.
8. Provides statutory priorities for ranking applications.
9. Provides for Executive Branch application review/recommendations and final Legislative project funding review/approval.
10. Submits the creation of TSEP (LR 110) to the qualified electors. (Passed 6/3/92)

nba1/5/93

TREASURE STATE ENDOWMENT PROGRAM CASH ANTICIPATION

Fiscal Year 1994

	7/93	8/93	9/93	10/93	11/93	12/93	1/94	2/94	3/94	4/94	5/94	6/94
Principal Deposits:	$10,000,000				$ 1,812,500			$ 1,812,500			$1,812,500	
Cumulative Principal Deposits:	$10,000,000				$11,812,500			$13,625,000			$15,437,500	
Interest Earnings: (by month)	$ 68,833	→	→	→	$ 81,309	→	→	$ 93,785	→	→	$ 106,261	→
Cumulative Interest Earnings: (by month)	$ 68,833	$137,666	$206,499	$275,332	$ 356,641	$437,950	$519,259	$ 613,044	$706,829	$800,614	$ 906,875	$1,013,136

NOTES:

1. Assumes no interest earned on interest
2. Interest calculated at Long Term ROC Interest Rate: 8.26% (adopted 11/20/92)

nba 1/5/93

TREASURE STATE ENDOWMENT PROGRAM CASH ANTICIPATION

Fiscal Year 1995

	7/94	8/94	9/94	10/94	11/94	12/94	1/95	2/95	3/95	4/95	5/95	6/95
Principal Deposits:		$1,812,500			$ 1,812,500			$ 1,812,500			$1,812,500	
Cumulative Principal Deposits:		$17,250,000			$19,062,500			$20,875,000			$22,687,500	
Interest Earnings: (by month)		$ 123,050	→	→	$ 135,979	→	→	$ 148,908	→	→	$ 161,838	→
Cumulative Interest Earnings: (by month)	$1,119,397	$1,242,447	$1,365,497	$1,488,547	$ 1,624,526	$1,760,505	$1,896,484	$2,045,392	$2,194,300	$2,343,208	$2,505,046	$ 2,666,884

NOTES:

1. Assumes no interest earned on interest
2. Interest calculated at Long Term ROC Interest Rate: 8.56% (adopted 11/20/92)

nba 1/5/93

APPENDIX B

PUBLIC COMMENTS ON THE DRAFT GUIDELINES FOR THE TREASURE STATE ENDOWMENT PROGRAM

PUBLIC COMMENTS ON THE DRAFT GUIDELINES

FOR THE TREASURE STATE ENDOWMENT PROGRAM

The following comments are a summary of oral and written comments received at ten regional public hearings held on the draft application guidelines for the Treasure State Endowment Program (TSEP) from September 26 to October 9, 1992 and written comments received to date since the hearings. The hearings were conducted by staff from the Montana Department of Commerce (DOC), Local Government Assistance Division. The statements represent the essence of the speaker's comments and are not intended to be a verbatim record. The original statement may have been paraphrased to improve clarity or make the statement more concise.

The dates and locations (with a location abbreviation noted) of the statements were as follows:

September 28th	Havre (Hav)
September 29th	Glasgow (G)
September 30th	Miles City (MC)
October 1st	Billings (B)
October 2nd	Helena (Hel)
October 5th	Kalispell (K)
October 6th	Missoula (M)
October 7th	Butte (Butte)
October 8th	Great Falls (GF)
October 9th	Lewistown (L)

Written comments received as of October 23rd are identified with a (W). Telephoned comments received to date are identified with a (T).

The comments have been organized by general topic. The order of the topics below follows the overall organization of the draft TSEP Application Guidelines and corresponds to the order in which the topics were discussed at the public hearings.

1. GENERAL COMMENTS

If you're going to have an infrastructure program, you need two things: a fair playing field and enough financial incentive to stimulate applications.

We agree with the comments you received in Havre.

You should put out something that summarizes the comments you have received.

I am pretty much in agreement with your draft guidelines. (M)

TSEP will invest several million dollars in projects which will employ many people statewide. Please consider requiring or encouraging whoever gets these funds to recruit and, whenever possible, employ public assistance clients. Often, such people need only a chance to develop a work history to enable them to become self-sufficient. Your implementation would demonstrate that this administration is

coordinating efforts and shares a common goal. (W)

2. AMOUNT OF FUNDS AVAILABLE FOR TSEP PROGRAM

TSEP doesn't provide enough money. (Hav)

This isn't very much money to go around. (Hav)

There just isn't enough money in TSEP. It's a drop in the bucket. (Blgs)

The Legislature can take away TSEP funds by just passing a statute; it's not really permanent. (Blgs)

This is a lot of hoops everyone is jumping through for a tiny amount of money. It's not going to have any noticeable effect. It's too little. The first ten years of TSEP are pretty minimal. (Hel)

What percentage of needed public facility projects will you get to with TSEP? (Kal)

At least TSEP is a start. If this were to go for 40 years, we'd see a lot of benefit. (Kal)

Our sewer project for 60 hook ups is going to cost $2 1/2 million. That would take all of the TSEP funding you have for two years. (M)

Our city officials feel that TSEP is not really useful. It's much ado about not very much money. (Butte)

How dependable is the flow of money from the coal tax? How dependable is the market over the long-term? (Butte)

The money that will be generated is a very small amount when you consider the extent of need throughout the state of Montana. It's not enough. (GF)

What's the long term revenue that will be generated from coal? How constant is it? (GF)

The money TSEP has available could be used up by two or three projects. We just worked with the Evergreen (sewer) project near Kalispell that cost over $11 million. (GF)

Your projected figures for earnings from the TSEP look overly optimistic. (L)

3. BIENNIAL REVIEW CYCLE/LEGISLATIVE APPROVAL

We don't want it to go through legislative review. Every two years is too slow. We should review applications every year like CDBG (the State Community Development Block Grant Program administered by DOC). (Hav)

The cycle is too slow to be useful for funding economic development projects. Private sector developers can't wait two years. (Hav)

Funding can take even longer because money may not be available when the Legislature approves a TSEP project. It can be 2-3 years from design before funding is ready. (Hav)

With legislative approval, it could take four years from the time you get money for preliminary engineering before your build a project because you have to go back two years after plans are done to get construction money. (Hav)

The current DNRC (Montana Department of Natural Resources and Conservation) Water Development Program is not usable because of timing problems and inflexibility. Our bids came in higher than expected and we needed a larger loan. We had to wait two years because the Legislature had to approve the exact amount of the loan. (Hav)

Legislative oversight is o-k. They can hold DOC accountable through a legislative committee but the whole Legislature doesn't need to select projects. (Hav)

The legislative process is confusing for small towns; you have to travel to Helena and testify. (Hav)

Our chances with DOC are better. Rural areas can't compete with the votes and lobbying of larger communities. It would not be on an equal basis like it is now with CDBG. (Hav)

The Legislature shouldn't "micro-manage" the program. The review should stop with DOC. It has ranked public facility projects for ten years with CDBG and has well-earned reputation for being fair. An annual program would accelerate the whole process. (Hav)

The only argument for legislative review is to prevent the Governor from having slush fund. That's hogwash. (Hav)

How is the Governor having a slush fund different from the Legislature having a slush fund? (Hav)

The Legislature should look at what DOC has done with CDBG. They should ask applicants and recipients how they were treated. We got fair treatment. We were able to know what we were competing on. That's all we ask. (Hav)

You're always going to have to tell some people "No." Governors would rather have a department do that than be personally associated with the decision. (Hav)

You won't always be successful. With an annual process, you can re-apply the next year. If you have to wait two years you lose your other funding sources and community support. Local officials get frustrated and say "The heck with it." An annual process allows you to keep the momentum going. (Hav)

We need a streamlined system that's fair, responsive, and turns around quickly that you can apply every year to. The Legislature ought to just set it up and let it run. (Hav)

Ranking applications is not fun; it's difficult. All that any local government asks is

that their needs are being treated fairly. The track record is there with CDBG; we just need to build on it. (Hav)

Why can't the money be distributed as projects are developed instead of waiting every two years for the Legislature? Why not have DOC review applications when they are needed (on a continuous basis)? (G)

I agree that every two years is too slow. The Legislature shouldn't have select TSEP projects; it's overkill. (G)

Why couldn't you distribute the money on an as needed basis? For example, I submit a project and it meets requirements. You hold it until money is available. Our project will not be ready for the first round. Have DOC issue funds as received. Am I dreaming? (G)

We have to go to the Legislature every two years - that's sad. We need to have this work every year. (Blgs)

Review and approval authority for TSEP should be with a state agency and/or board. Approval by a biennial legislature will not be responsive nor mesh with federal financial assistance programs. (M)

The two year timeline is too long for economic development projects. It would make it very difficult. (Butte)

We're afraid of the legislative approval process. We don't have the votes in eastern Montana. We would prefer to have DOC review the applications like it does with CDBG. (L)

How useful would TSEP really be for economic development projects? It looks like the biennial cycle would take too long. (L)

The application cycle should be yearly, because this will make funds more readily available. The review process should be linked to the existing CDBG program to avoid unnecessary duplication. Requiring legislative approval adds one more item to the Legislature's already packed agenda, and will make the selection of grant recipients more susceptible to political influences rather than technical merit. (W)

The program should be administered, to include application review and approval, in a timely manner to allow for synchronization with federal financial assistance programs. A two-year approval process is not conducive to financial packaging and timely projects. (W)

4. ELIGIBLE APPLICANTS

Accepting DNRC and CDBG applications as TSEP applications is a great idea. (MC)

A county should be able to sponsor more than one project. We're glad the guidelines allow that. (Blgs)

The Montana Constitution prohibits the Legislature from appropriating funds to a private individual or corporation directly, as in the TSEP process. TSEP can only

assist public entities. (Hel)

We support allowing counties to apply on behalf of more than one project but would prefer allowing water or sewer districts to apply directly, instead. (Kal)

You need to try to get the Legislature to broaden the definition of those eligible to apply. (Kal)

Homeowners associations and mobile home parks should be able to apply for TSEP funds. (M)

All legal public entities, to include water and sewer districts, should be directly eligible for TSEP. (M)

Continue to allow automatic rollover of CDBG and DNRC applications into TSEP applications, even after the first year. (M)

Water and sewer districts should be able to apply directly. Counties don't want to get in the middle of a loan obligation from a district to the State. We can't assume any responsibility for repayment of their loan. We can't make that guarantee. The County has no means of generating revenue to pick up that obligation in the event of a default. (GF)

Under the Clean Water Act, EPA (the U.S. Environmental Protection Agency) defines public water systems to include mobile home parks. Those people will go out of business if there isn't some means of assisting them. We should allow loan assistance to them. They are public water systems by EPA regulations. (GF)

It is discriminatory to consider CDBG and DNRC applications automatically for TSEP. They will have a head start for funding and we will have little time to start from scratch. (L)

The Legislature specified that eligible applicants for this program are to be "local governments." This excludes special purpose districts. County water and sewer districts should be allowed to apply on their own merits. Many counties across the state, regardless of the need or impact on public health, will possibly balk at co-signing on a bond sale with the community where the fiscal ability to repay is potentially weak. I don't know of many county commissioners who would enter into an agreement where they feel the possibility exists that their county might end up paying the bill. (W)

It would be helpful if county sewer and water districts could apply directly, instead of through the county. This would eliminate even more duplication, since CDBG already requires application through the county. (W)

Water and sewer districts should be allowed to apply without direct sponsorship from the counties. If water and sewer districts are to be required to be sponsored by their county, clarification must be made as to the number of projects each county will be allowed to sponsor. (W)

TSEP has overlooked home owners associations and mobile home parks. These two groups have recently been brought into the public water supply arena by an

administrative rule imposed by the Montana Department of Health and Environmental Sciences (DHES). This rule states that all water systems with ten connections or more are now considered public water supplies. These systems do not have the capacity to upgrade their systems to comply with all the regulations that are now in effect without some assistance. This assistance, to be effective, must be in the form of grant monies. (W)

Indian tribes should be eligible to apply without going through a county government, since they are sovereign nations. (T)

The requirements of the Federal Clean Water Act and EPA are having a significant impact on small communities and all public water and sewer systems in the state. This includes many commercial concerns such as trailer courts. They are a part of the infrastructure of this state. TSEP excludes assistance to privately owned, for-profit organizations or facilities. These types of facilities support the economy of this state and definitely affect the public health of a number of the state's citizens. These types of public systems should at least be considered as eligible for loans. The [new requirements] for testing of water and for treatment of water and sewage will put many of these concerns out of business. (W)

5. ELIGIBLE PROJECTS

Why aren't roads included? (G)

Why aren't roads included? ....We have other sources of funding. (MC)

Could you have CDBG fund projects that aren't eligible for TSEP and use TSEP only for TSEP-eligible projects? (L)

6. ELIGIBLE COSTS (NEED FOR PRELIMINARY ENGINEERING ASSISTANCE)

Up to 50% of preliminary engineering costs should be eligible for TSEP funding (a 50/50 grant) but this only makes sense if engineering grants can be o-k'ed without legislative approval. (Hav)

TSEP funding should be available for preliminary engineering. TSEP could provide a dollar for dollar match. It could be like the old EPA Wastewater Construction Grants Program; if you didn't follow through with the project, you paid it back. (Hav)

Preliminary engineering fees should be included in the TSEP because a lot of small towns don't have money set aside for major capital improvements that occur without any notice. (MC)

EPA funded matching grants up to a certain level for preliminary engineering. That was really important to us. You can't play the game without preliminary engineering. (MC)

Money for preliminary engineering is a big item. Communities are flat broke. It's really needed. (Blgs)

Funding preliminary engineering is important. Montana people won't buy a pig in a poke; they have to know what the proposal is and what it costs. TSEP has to

address up front costs or you won't be able to get people to buy into any kind of project. (Blgs)

A loan fund should be set up so communities could borrow for preliminary engineering and design. They could repay the loan when they do construction financing for the project. It should be included in the overall cost of the project. (Blgs)

We need some way of helping with preliminary engineering studies. (Hel)

TSEP should provide matching grants or loans for preliminary design studies. (Hel)

Financing preliminary engineering is not that big an issue; it is not an obstacle. (Hel)

Start up money is a continuing problem, especially for small communities. They don't even get into the pool of applicants without it. (Hel)

This is a problem for every infrastructure funding program. TSEP doesn't have enough money to deal with it. (Hel)

You don't have very much money here. The whole intent of this program is to construct projects and create jobs. It would be sad thing to use the money for planning and not get anything done. (Hel)

You could spend all your money on preliminary engineering studies and not get any projects built. (Hel)

The cost of preliminary engineering depends on the size of the community and the problem facing it - it varies case by case. (Hel)

In eastern Montana, nobody has any money to do anything. [They will need TSEP funding for preliminary engineering.] (Hel)

A predecessor to EDA (the U.S. Economic Development Administration) provided loans for preliminary engineering. The loan was repaid when the project was constructed. Probably some of those loans were never repaid. (Hel)

The Public Service Commission (PSC) might not allow communities to repay loans for preliminary engineering through their rate base (as a separate "stand alone" charge). Repayment would probably have to be tied to overall financing of a construction project. (Hel)

Getting money for preliminary design is very difficult. There's got to be some mechanism for funding this. (Kal)

TSEP needs to cover preliminary engineering and project planning costs. (Kal)

Planning in the preliminary stage is critical to the quality and cost-effectiveness of the project you're going to have. (Kal)

There's got to be some sort of mechanism for small communities to get the preliminary engineering done initially. (Kal)

TSEP must have preliminary engineering grants available -- projects cannot begin without this expensive up-front cost. (Kal)

If you spend some money on planning up front, you can save a lot of frustrations down the road. (Kal)

Small communities need some form of assistance for first-look or preliminary studies and engineering/planning. (Kal)

Communities also need training in how to select a good engineer. (Kal)

Our sewer district has no way to get funds for preliminary engineering. It should be eligible for TSEP funding. We're going to have to get some funds to define our needs and the scope of the problem and the cost to fix it. (M)

As a newly organized sewer district in Seeley Lake, we would like assistance from TSEP for grant money. Preliminary engineering is needed to help us in finding any problems that may exist. (M)

Since our sewer district is newly organized, we have had the basic problem of no financial help from any source to help us. This money is needed to [hire] an engineering consultant to investigate the preliminary needs of two sewer systems in Seeley Lake. (M)

A preliminary engineering grant set aside is desperately needed. (M)

For years the biggest stumbling block has been the difficulty of funding preliminary engineering. It is the very thing you need to propose a project. We need a way to advance funds to study alternatives for solving problems. You can't select a sound design without it. (M)

People won't support a project unless the need can be shown (with a preliminary engineering study). (M)

With no existing (water or sewer) system in a community, you have no way to raise money (to pay for preliminary engineering). (M)

You need a preliminary engineering study as a "jump start" to even begin the search for financial assistance. It's a "Catch 22": you can't start without it but you can't get financial assistance to help fund it. Communities aren't facing their problems because they can't afford the $10-20,000 it costs to hire an engineer to verify their problem and suggest some alternative solutions. You can't sell a project to the public without it. (M)

Other states provide funding for preliminary engineering. That's why Montana is so far behind other states in dealing with infrastructure problems. That's why over the years we have sent millions of dollars of U.S. Farmers Home Administration (FmHA) money back to the national pool; we didn't have projects ready to go. (M)

We need an easily accessible TSEP grant setaside for preliminary engineering. (M)

The idea is to make money available for high cost projects to small communities. Why isn't preliminary engineering available if they are successful in getting the loan or grant? It must be considered - in our community this has been one of our draw backs. (M)

TSEP should not duplicate other infrastructure programs. Using TSEP to fund preliminary engineering would not duplicate any other program. We could do something with this new state program that no one else does. (M)

You could use TSEP as a revolving fund for preliminary engineering loans. When they build their project, they pay it back. Make a setaside and have people apply for it. (M)

The Legislature may not appreciate the problem. The program is supposed to support infrastructure projects. Providing funding for preliminary engineering would do that. (M)

There is a great need for engineering moneys for proposed plans - or you probably wouldn't have the information to apply for other grants. (M)

We haven't used all of the FmHA grant money that is available because of a lack of applications. Preliminary engineering is needed to fill this chasm. (M)

Preliminary engineering services should be allowed as match for TSEP grants. Communities should get credit for what they have spent up front. (M)

You can't get a project started without engineering and we can't pay for it. (Butte)

You have to have preliminary engineering to even enter the program. (Butte)

We had to take our enterprise (water) fund down to zero to pay for preliminary engineering. If we'd had a major problem at that time we would have had no where to go. We don't have $10,000 in an account like a larger city might. (GF)

We have already spent a fairly large amount of money working on grant applications and preliminary engineering. If we could not be reimbursed for this or if this could not be considered as local match, it would really make a difference on what we could apply for. (GF)

Because of the number of low income communities in Montana that couldn't even afford a no interest loan, a portion of TSEP funds should be set aside to help small communities with preliminary engineering. It's essential for small communities to get into the process and to get their infrastructure problems addressed. (GF)

It's a "Catch 22" in that to do a good application you need preliminary engineering and yet communities can't afford to pay for the pre-engineering. (GF)

The old EPA Construction Grants Program provided seed money for pre-engineering in order to move a project forward. (GF)

A revolving loan fund for preliminary engineering would be a viable possibility. (GF)

Without preliminary engineering, you can't go anywhere: you can't go to CDBG, you can't go to DNRC, you can't go to FmHA. Everyone needs that preliminary engineering. Without it, you're stuck. (GF)

Many small communities need funding for preliminary engineering prior to application. Small studies are relatively inexpensive but small systems see preliminary engineering as a shot in the dark of obtaining a grant or loan with no guarantees. They feel that what they are going to get is a pile of paper which is worthless without the grant or loan. (GF)

FmHA will reimburse for preliminary engineering as part of its loans and grants. (GF)

TSEP should be revised to appropriate money for preliminary engineering. Preliminary engineering is critical for many communities to identify problems, costs, and to sell the local population on the need for the project. (GF)

A preliminary engineering grant set aside is the most needed aspect of infrastructure development in Montana. The Legislature has gone on record in support of utilizing TSEP funds to leverage other monies. That desire could not be better satisfied than by providing first phase, jump-start, preliminary engineering grants. Neighboring state grant programs providing for preliminary engineering have been very productive. (W)

It is my understanding that TSEP was designed to not duplicate other programs already in existence, yet, just as with SRF (the EPA-funded State Revolving Fund administered by DHES which provides low-interest loans for sewer projects), CDBG, FmHA, and many other programs, preliminary engineering/planning applications are not eligible. Our community has already had one proposed sewer system defeated, because not enough facts were presented, the system was too big and too expensive, and the need for the system was not proven. It would seem prudent to spend considerably less money for preliminary engineering, rather than to spend millions of dollars on a system that won't work or people can't afford. Please consider making preliminary engineering/planning applications eligible under the TSEP before continuing with dispersement of the funds. (W)

Preliminary engineering should be an allowable cost. Many of our communities do not have the means to afford preliminary engineering. This is a vital part of the application process. A portion of the funds available could be set aside for a limited number of such grants. (W)

Preliminary engineering should be an eligible project cost. It should also be eligible as a "stand-alone" TSEP application. (W)

7. APPLICATION SCORING SYSTEM

You should have another ranking criteria; like CDBG, you should look at the appropriateness and cost-effectiveness of the proposed technical design. You want the best project that you can put together. (MC)

Congratulations on walking a very difficult line. I'd encourage you to include examples in the "criteria" section. It tends to clarify most concerns by listing the activities and actions that will impact an applicant's competitive standing. (M)

8. FORMS OF TSEP FINANCIAL ASSISTANCE

The Legislature may swallow twice when they look at these numbers but we have to get serious about our infrastructure needs. (Hav)

Basically, I feel TSEP funds should not be competitive, but rather allocations made to each community on a formula basis, similar to gas tax, e.g., water and sewer allocations based on number of miles of each with some provisions making allowance for small communities not being overwhelmed by the larger ones. (MC)

A community shouldn't have to vote on a bond issue before it applies for TSEP funding. (Blgs)

Refinancing of existing debt should be allowed when it is done in conjunction with a new project. It may make sense to roll old debt into a new bond issue in order to achieve a lower per household user cost. (Blgs)

The Legislature would oppose using TSEP for refinancing on a routine basis but it might be o-k if necessary to make the financing of a new project affordable. (Blgs)

Refinancing could lower user costs substantially. (Hel)

Not allowing refinancing penalizes communities that have already done projects to meet federal standards. (Hel)

TSEP has three options:

1. one-time, up-front grants,
2. apply debt service subsidies to local bond debt over the term of the bond, or
3. the State can sell its own bonds and use TSEP to make up the difference between what the local government pays the State and the State's cost on the bond issue. (Hel)

From a management standpoint, you need to set up definite parameters in your guidelines, such the $500,000 cap on affordability grants. (Hel)

A cap of $500,000 will limit you to smaller dollar cost projects. (Hel)

Grant and low interest loans sources are absolutely essential for most small and/or rural areas of Montana. Many communities could not fund infrastructure projects. (Kal)

Communities should be able to phase improvements to an overall system as separate components over a period of years as part of a capital improvements plan. (Kal)

DOC and the State Administration should allow local governments flexibility to raise new revenue for matching funds for limited specific purposes such as this. HB 267 at the 1991 Legislature is a good example of a grant of limited authority. (M)

EPA sends down directives on what we're supposed to do but doesn't say how to pay for it. (Butte)

The difficulties of funding public facilities is extremely frustrating. Some small communities just give up. (GF)

Your comments in the "Introduction" regarding the State's population distribution and economic conditions succinctly place the problem which exists in our small communities. Dr. Haines' conclusion to his study also bears out the fact that many of our communities, both incorporated and unincorporated, cannot afford even zero percent interest loans. To this end, I would note that the level of money generated from the coal severance tax interest is minimal when considered for making grants to worthy projects where there is a serious fiscal need. It would appear that this program is more geared to be a loan program. (W)

We suggest you consider including, as a condition of funding, a method where new customers pay a fair share of the construction cost of the funded facility. Examples of such methods are system development fees, buy-in fees, and connection charges. This helps assure that existing system users don't bear a disproportionate share of system expansions. (W)

A. AFFORDABILITY CONCEPT

In addition to affordable user charges, you have to consider keeping bonded indebtedness per household down to levels that bonding companies are comfortable with. (Blgs)

Applicants should propose the financing option they want. If it isn't workable, DOC can negotiate with them. The goal should be to fund as many projects as possible. (Blgs)

The proposed system (for determining affordability) only considers one utility. You may already be carrying high costs for solid waste or sewer. (Blgs)

Using median household income (to determine affordability) is equitable. It works. (Blgs)

The 1% [of median household income standard] seems to be a breaking point across the state. Once rates start to exceed that, people resist. (Blgs)

FmHA allows you to do income surveys to make comparisons. Census information may not fit your project area. (Blgs)

We need to consider operation and maintenance (O & M) costs for households, not just debt service. You need to look at all the pieces of the puzzle. (Blgs)

FmHA considers O & M and debt service in its 1% calculation. (Blgs)

TSEP should look at the entire user charge, not just debt service. The people in a community care what their entire user charge is, not just the part related to debt service. (Blgs)

If the 1% calculation isn't a realistic base because of O & M charges, you need to look at the percentage. If it is, then o-k. What does the average

person pay in Montana for water? It isn't right to subsidize more than that. (Blgs)

If you're talking about affordability, then you need to consider O & M costs. (Blgs)

O & M costs vary considerably depending on the type of system involved. The bottom line is what do the people have to pay, since affordability is the issue. (Blgs)

You need to look at total user fees. (Blgs)

Would the 1% test help larger communities? It seems more targeted to smaller communities. (Hel)

The 1% test is just a rule of thumb. It doesn't look at the overall costs the community is carrying and how much debt they can take on. Even if you consider O & M, they may be carrying high costs for other public facilities or services. Bonding companies look at overall debt. (Hel)

The reference on page 18 to the EPA Construction Grant Program is incorrect when considering means to assess affordability. EPA uses a variable scale to denote affordability levels with the scale varying as a function of income levels. (Hel)

Some communities have been negligent; their rates have been too low. It's good to compare overall local effort and financial capacity. (Hel)

How do you compare financial need for bridge or storm drainage projects? Financing bridges with TSEP raises technical, legal, and other problems. (Hel)

How do you define "affordability" for bridges, solid waste, and storm drainage projects? (Hel)

The 1% test is not a fair measure for our town because a very high percentage of our population is very low income: 40% is below $11,000 in income. Half of our town is very poor, the other half is very well off. We have few families in the middle income range. (Kal)

O & M fees should be considered because they are a cost to the user. (Kal)

Interest rate subsidies should use debt service as a parameter and not include O & M costs. (Kal)

You need to look at overall debt. Communities that are really trying to respond to all the EPA requirements are saddling themselves with a lot of debt. Interest rate subsidies should also look at overall debt. (Kal)

As you start stacking debt for other community facilities, can the community really afford another 1%? How deep in debt should they be? (Kal)

Basing financial affordability on residential sewer rates can skew financial

impact in those communities that use a "strength of effluent" rate structure whereby businesses such as restaurants and dairies that create harder to treat effluent pay more. Consequently, residential rate payers pay less than in other cities where rates are based solely on volume. (M)

Considering other local costs, in addition to household incomes, will complicate the application. We want to avoid that. (M)

When you look at a community's need for assistance, you need to consider the SID (special improvement district)debt that property owners are carrying. (M)

How many other local costs and SID assessments will you consider? Where do you draw the line? (M)

Defining "reasonable" costs for solid waste is very difficult. Costs are changing so quickly because of the new EPA requirements that a survey of current charges or assessments may be misleading. (M)

Could O & M costs be considered but subtract any portion of the user charge that is going into a reserve? Count only the O & M costs actually dedicated to O & M hard costs, testing, etc. (M)

Given DOC's years of experience, can a guide book be developed that would help some communities conclude they just can't make it? Are there any data to show when the combination of tax base, and infrastructure deterioration and household income are so hopeless that no amount of investment is justified? (I know - this closer to a political than programmatic question, but it would help if such a guide could be developed.) (M)

You need to consider the number of people in a community, not just their income. It will cost a community with a hundred people just as much as a community with 500 people to do a project but we're dividing the cost into a smaller number of people. (GF)

I recommend that you look at the total debt owed by a community, the rate they have been charging for water and sewer. If abnormally low, tell them no help until they agree to be more comparable to average rates. When the request is reviewed, add in operating costs and reserve accounts. (GF)

Cost per household should include O & M and debt payment and reserve requirements. FmHA includes O & M. It divides the number of users into the total cost of O & M, interest, debt service, and the reserve account. (GF)

A lot of little towns aren't charging what they should be charging. That's the reason why they're in trouble. (GF)

We have spent eight years solving our solid waste problems. Our efforts and our costs for solid waste should be considered when we come in for a sewer or water project. (L)

The overall effect of the program seems to be more to the needs of small

communities than the large ones. Along these lines, the program relies heavily on overall, larger area statistics. We suggest you consider projects on smaller area data, such as census tract information. This allows areas of need with a larger area to benefit from the program. (W)

If the median household income listed for Broadus is used to figure eligibility for TSEP grant assistance, the Town of Broadus' chance for receiving funding will be greatly reduced. We question if other communities, especially ones as small as ours, are faced with this problem also. (W)

B. GRANTS

It's better to have grant ceilings higher at realistic levels and then tell the Legislature that you need more money to maintain infrastructure and a solid economy in the future. (Hav)

Even a 50% grant may not be enough to lower costs to an affordable level. (Hav)

Your matrix actually understates the case for up-front grants. If affordability is the goal, grants are the best option. Every dollar a community receives as a grant is a dollar it doesn't have to borrow and pay underwriting costs on. Every dollar financed pushes up user charges because of coverage and reserve requirements. (Hav)

Another difference between grants and debt service subsidies is that the people that price your bond would look more favorably at an up front grant than a subsidy that may quit after a certain number of years. A grant may lower your costs more. Also, with a limited amount of dollars available, you want to keep your administrative costs as low as possible so that the maximum dollars get to the people. If you have to keep track of subsidy payments that's additional administrative costs that will eat up funds. (G)

Why have a dollar cap as well as a percentage cap limit on TSEP grants? As money grows in the TSEP fund in future years, the limited funds now available won't be a problem. Especially for the debt service subsidy, don't limit what somebody can do on a bond issue. (Blgs)

Grants will only allow TSEP to do three or four projects. (Blgs)

Grants and interest rate subsidies with direct TSEP loans make more sense economically and administratively. (Kal)

We have an infinite amount of low interest loan money out there that we aren't beginning to use. We have precious little grant money. (M)

Grants have the benefit of reducing the amount of debt the local government has to incur. (M)

We're looking for grant assistance, not a loan. (Butte)

Up-front matching grants are preferable because they help preserve a

community's capacity to issue additional debt and avoids long-term obligations for the State. (GF)

Could a community just ask for a grant without matching money? We have spent a lot of money in the past to fix our water system with loans and grants. We don't have any more money to match with. We need a grant to finish our project up. (GF)

I understand that loans are possible only from bond proceeds. I'm told that there is general agreement that additional legislation is necessary to authorize such bonds. Therefore I and others recommend that only grants be considered for presentation to the legislature. (W)

It is noted that loan subsidies are possible. This is a step in the right direction for those communities where it will work, but it is not enough. More money must be made available for grants. (W)

C. DEBT SERVICE SUBSIDY

On your matrix (which compares the alternative funding options), debt service costs are significantly understated, not "somewhat understated" as your forms says. You haven't added in the required reserve for a bond issue, which is equal to one year's payment. Also, underwriting costs and most important is the "coverage" ratio. You have to have revenue equal to 125% of debt service. Rates will be much higher. That has the greatest impact on the debt service subsidy option. Your TSEP subsidy won't go as far as you project. It will have much less impact on affordability. (Hav)

An annual debt service subsidy may be a good idea but it might be difficult to explain to your community. Our people were confused by the DNRC five year interest rate subsidy and the change in our rates. (MC)

Debt service subsidies should continue for the life of a bond. They may get a poorer bond rating if the debt service jumps up after a certain number of years because of a dollar cap on the subsidy. (Blgs)

The $500,000 cap is too low for the debt service subsidy. Bond raters may give you a higher interest rate if debt service jumps up after a specified time. You will lose some of the benefit of doing a subsidy. (Blgs)

The state will have to provide the bonding company with a guarantee that the debt service subsidy will be there over the full term of the bond. (Blgs)

What is the state's liability in the event of a default by a community? (Blgs)

Even though the debt service subsidy costs more over the long-term, it allows us to fund as many projects as we possibly can. We can't wait for ten years when we will have enough money to do one-time grants. (Blgs)

Debt service subsidies are a long-term obligation of the State. Do you want to extend yourself that far? (Blgs)

If you're considering ending a subsidy after five years (like the DNRC Water Development loans), it should be done by considering the community's existing debt service. If they have other debt that will be completely amortized in five years, dropping the subsidy may make a lot of sense. If not, debt subsidies should be used for the life of the bond. (Blgs)

The "cost" to TSEP of an up-front, one-time grant is really essentially the same as the apparently higher cost of 20 years of debt subsidy: the simple way to say it is "stick $500,000 in the bank over 20 years." It would be worth the $937,000 you show as the "cost" of 20 years of debt service subsidy; they are basically the same. (Hel)

TSEP should allow debt service subsidies for previously constructed projects, not only new projects. We would like to apply retroactively for our water system improvements (state mandated) that have resulted in high water rates. Helena's biggest concern is that our city has been at somewhat of an economic disadvantage due to our high water rates. We have been mandated to make improvements. It would be unfair to assist other communities now (and prohibit Helena from seeking assistance) and still leave Helena at an economic disadvantage. (Hel)

Debt service subsidies look too complex to administer. (Kal)

In comparing the cost to TSEP of one-time, up-front grants versus long-term debt service subsidies, if you put a future value on a $500,000 grant, actually the $937,000 long-term cost of a debt service subsidy over 20 years is less expensive to the State because it is investing versus the $500,000 paid out of the coffers. The State has a chance for an escalating interest rate on the funds it invests in the pool. (Kal)

When doing a debt service subsidy, you should consider any debt that will be retired during the term of the new loan. (M)

The debt service subsidy option would be cumbersome to do underwriting for. Bonding companies would be hesitant if the debt service per household would be very high without the TSEP subsidy. They would want an ironclad commitment that the State's subsidy would be there through the term of the bond. (M)

The Legislature would be concerned if the debt service subsidy might obligate the State in the event of a default. (M)

Debt service subsidies would be even more difficult to structure for special improvement districts (SID's). It would probably be tougher to market the bonds. (M)

Grants have the benefit of not fiscally obligating the State over a number of years, as would the debt service subsidies. (GF)

Because of the indefinite nature of the TSEP revenues, bonding companies would want an unconditional commitment from the State to provide a debt service subsidy for the term of the bond. It wouldn't be good enough to just

say that the subsidy would be there as long as TSEP funding was available. The bonding companies might impose severe coverage requirements unless the bonds were backed by the state's full faith and credit or by coal severance tax trust funds. The private bond market would want guaranteed assurances of payment of the debt service subsidy. (GF)

Regarding debt service subsidies, local governments would have to show the State's subsidy as an obligation or debt owed them on their financial statements. (GF)

If the State backed TSEP debt service subsidies as a general obligation, it could affect its bond rating for other purposes. (GF)

The debt service subsidy option is preferable to direct state loans. It would reduce the amount of the state obligation and have less impact on the state's bond rating. However, the debt service subsidy would be very difficult to structure to satisfy the private bond market. (GF)

The option of providing assistance through an annual debt service subsidy appears to be a good concept. Providing an option that would potentially make assistance available to a greater number of projects is desirable. (W)

FmHA tried working with the debt service subsidy approach before but found that they don't work because of the difficulty of assuring the long-term commitment of the subsidy. (T)

D. LOANS

No communities have enough money to repay loans; if they had enough to repay a loan they wouldn't need this program. (Hav)

There are ample sources of loan funds available: FmHA, DNRC, rural co-ops. (Hav)

There's no way to pay back loans for bridges. Should we set up toll booths? (Hav)

The DNRC interest rate subsidy allows some projects to go ahead that wouldn't have otherwise. (MC)

We don't need more ways to borrow money; there's plenty of ways to borrow money. What we need is ways to pay back money. We don't need more debt. (Blgs)

Interest rate subsidies on direct TSEP loans should be more flexible so you can give a zero percent loan if you need to, in order to make the loan affordable. (Kal)

The interest rate subsidy rate should be based on actual interest rate cost for each year of bond existence to the State of Montana for the pool of bonds sold plus 1/2% administrative fee. Please do not use an interest rate cost to the State (based on the average of interest rate cost based on average

maturity of bonds sold). (Kal)

Because of the uncertainty of coal tax revenues, TSEP probably won't be able to commit all of the revenues available to it. Bond underwriters will likely impose debt coverage requirements. You will probably only be able to issue bonds for one-third of the amount of the TSEP revenue stream. The only way you could get away from the coverage requirement would be to get the Legislature to back the bonds with the State's full faith and credit. That seems unlikely. (M)

Our city is so broke that a loan is impossible. We couldn't pay off a loan very easily. (Butte)

A lot of the smaller places are "loaned out." They can't afford to have any more loans, even when they're low interest. (GF)

You will need to add more financial details to deal with loans and bonds. (GF)

If these application guidelines are intended to be used for loans I would suggest more information regarding the loan program to avoid confusion by the public. Reserves, coverage, administrative and origination fees, bond counsel, and so on are all items the public should be aware of up front, as they tend to add cost to the loan and complicate the process. (W)

9. APPLICATION REQUIREMENTS

I like the approach of doing the environmental assessment after the community knows whether it will get TSEP funding. (Hel)

The public hearing requirement is good; any controversy should come out. (Hel)

TSEP should have relatively easy access. The application process should not be terribly complex nor require sophisticated grantsmanship. (M)

I recommend an easier process with less paperwork than the CDBG program. Make it more like the INTERCAP program. (M)

Don't make the application process too involved. I hope it will be more simple than CDBG. For CDBG, you need a grant writer.

The deadline for applications is coming up too soon. It's not enough time to prepare an application. (L)

If the program is truly geared toward poorer communities, those which have traditionally be unable to afford infrastructure improvements, would it not make more sense to provide a pre-application process? One in which the community could provide you with less detailed information, but enough to enable your staff to determine if funding of the project is possible. Once your staff had indicated funding probability, then a detailed engineering study could be launched, with more accurate cost estimates, etc. If a community is too poor to initiate its own infrastructure improvement projects, is it not also too poor to hire an engineer to perform preliminary studies in order to apply for a grant or loan that may never be received?

The application process must be simple. TSEP is for Montanans and the rules are being written in Montana. The application requirements should avoid as much as possible the complexities of some federal assistance programs. New ground should be plowed, new and simplified procedures tried. (W)

Engineering studies should be mandatory for projects. Preliminary design criteria should be included in the report. The need for a project should be well documented. Studies should require a present worth analysis of capital and operating costs for all alternatives considered. An environmental assessment of alternatives should be provided, particularly on the selected alternative. (W)

Due to the time frame for this first year, we request that this year's applications be an abbreviated version of what is required in this program. The Montana Association of Water & Sewer Systems was under the impression that TSEP was to provide funding unlike the other programs already in effect. The guidelines as they stand now do not accomplish that goal. TSEP is almost a complete duplication of CDBG. (W)

We suggest you evaluate an applicant's ability to properly operate and maintain a facility. This should include a review of user rates, management plan and personnel qualifications. This helps assure maximum facility life. (W)

We suggest you require that applicants have in place and follow planning documents such as land use plans, comprehensive plans, and zoning. The helps assure that constructed facilities fit community needs and growth. (W)

dc/tsepcommentsx

APPENDIX C

"THE TREASURE STATE ENDOWMENT PROGRAM: A QUESTION OF INCENTIVES"

The following article in the Fall, 1992 Montana Policy Review by Kenneth L. Weaver of Montana State University examined the likely effectiveness of the financing options available under TSEP for Montana communities of various sizes.

MONTANA Policy Review

THE TREASURE STATE ENDOWMENT PROGRAM: A QUESTION OF INCENTIVES

KENNETH L. WEAVER
Montana State University

The question of infrastructure has received renewed attention, at the federal, state and local level. Governmental officials must devise the means to address infrastructure problems at a time of shrinking revenues. One innovative measure is the recently-passed Treasure State Endowment Program. In this article, the infrastructure renewal incentives to local officials provided by the Treasure State Endowment Program are compared and analysed by reference to a sample of ten Class III cities in Montana. The author is director of the Local Government Center.

VOTER APPROVAL last June of the Treasure State Endowment Program is a significant milestone. It marks the realization by Montana's voters and taxpayers that their community infrastructure is "broke and needs fixin'". Recent estimates put the price tag at something like $430 million in community water, waste water, solid waste disposal systems, and other infrastructure problems. Ultimately, most of that cost will have to be borne by rate-paying customers, many of whom have become accustomed to water, sewer, and garbage rates that have not conveyed the true cost of those essential services to the customer. As a result, many if not most of Montana's municipalities, as well as our rural water and sewer districts, now face the cumulative costs of renewing these critical and capital intensive systems.

Above all else, the Treasure State Endowment Program (TSEP) should be viewed as a package of incentives provided by the Legislature and the voters to encourage the locally elected trustees of community infrastructure to get on with the job of "fixin' what's broke". Does the Treasure State Endowment program provide the right incentives? Or is it, as the city manager of one of Montana's larger communities put it, "just a brief spring shower following seven years of drought"?

The acid test of the effectiveness of any public policy is whether or not it accomplishes the purpose intended by the policy makers. The challenge to the policy maker, in particular for the legislative policy maker, is to discern in advance of adopting the policy whether or not it will produce the desired results. For example, federal General Revenue Sharing (which transferred some $60 billion from the national government to local governments during the period between 1972 and 1986) was thought by some national policy makers to encourage local infrastructure renewal. In general, it did not; most local governments used the non-earmarked resources to help pay for local service delivery, rather than investing it in their deteriorating capital facilities. As a result, by the 1990s the infrastructure of American communities was in worse shape than before Revenue Sharing began.[1] Moreover, upon the termination of Revenue Sharing in 1986, many if not most local

governments had to accommodate to the lost annual revenue. They either raised local property taxes or cut back accustomed service levels. In Montana, the loss of Federal Revenue Sharing occurred at precisely the time the CI 105 "property tax freeze" was adopted by the voters.

The national revenue sharing policy certainly succeeded in moving resources to the local level. However, it was ineffective in providing *incentives* to local governments to devote these windfall resources to long-term capital replacement needs. By way of comparison, the Farm Home Administration program of encouraging the reconstruction of community public works with an array of "gap filling" grants and loans has been singularly successful, precisely because it focuses resources in a way that assures the desired public policy outcomes will be realized.

The purpose of the Treasure State Endowment Program is the reconstruction of our communities' critical public works. Thus, what is at issue in formulating effective infrastructure policy, and the appropriate implementing procedures, is crafting the appropriate mix of incentives to assure that that specific policy purpose will be accomplished in some reasonable proportion to the dollars invested.

Our emphasis on incentives as the policy mechanism that will most likely assure the preferred outcomes springs from the wonderfully simple free market proposition that "incentives work". This is an economic reality that has only recently been discerned in Eastern Europe and the former Soviet Union, and that is occasionally overlooked even by American policy makers. The trick in wise public policy is to know in advance which incentives will produce the preferred behavior. With respect to infrastructure renewal, we already know, for example, that the offer of low-interest loans to small local jurisdictions will not provide sufficient incentive to take on substantial debt for infrastructure renewal precisely because these jurisdictions cannot service the long-term debt at any rate of interest. The recent work of Dr. Richard Haines (reported in the Spring, 1991 edition of this journal) documents the fiscal inability of one third of Montana's municipalities to borrow $1 million dollars at zero percent interest.

The plight of Montana's smaller jurisdictions is not fundamentally different from the general fiscal condition of rural America. The inability or reluctance of small local governments to use debt financing for infrastructure renewal is noted by the Congressional Office of Technology Assessment in their 1990 "Special Report on State and Local Public Works Financing and Management", cited above, and reported in local government trade journals[2]. Thus, Montana policy makers would probably be ill advised to rely solely or even primarily upon yet another state revolving loan program as sufficient incentive for small local governments to address their infrastructure needs.

Conversely, a grant program with a $500,000 maximum for a public works project in a metropolitan area is, as the city manager noted " a brief spring shower following a seven-year drought". His point and ours is that a $500,000 grant isn't much of an incentive for the government of a large community to move forward with a $10 million water system project, however much that project may be needed for community health and economic development.

Low interest loans, with or without annual interest subsidies, are not likely to provide sufficient incentive to the local officials in smaller communities to undertake substantial, additional debt for infrastructure renewal.

To validate our expectation that some appropriate "mix of incentives" will be necessary to accomplish the purpose of the Treasure State Endowment Program, we looked closely at the infrastructure needs and fiscal circumstances of ten of Montana's Class III Cities. We chose Class III Cities because they are numerous (38 of Montana's 128 incorporated municipalities) and because their range in population (from approximately 1,000 up to 5,000) enables us, as described below, to discern the impact of alternative funding strategies upon both the more numerous (78) smaller units of Town governments as well as upon the fewer (12) and more populous Class II and Class I units of government. Moreover, the infrastructure needs of Class III Cities do not differ greatly from many of the 500 or so rural water

and sewer districts encountered in county jurisdictions. The ten Class III communities included in the study were selected to assure regional representation.

A review of the characteristics of these ten communities, reported in Table I, reveals that all but one of the communities is presently carrying significant infrastructure debt burden (column 4). The one community (Hardin) with relatively little infrastructure debt as of 1992 is now in the process of planning for an additional $2.5 in debt financing of new municipal sewer lines. Insofar as this sample of ten communities is typical of other middle-sized Montana cities, three characteristics are noteworthy[3]. First, Montana local governments are not ignoring their infrastructure replacement needs. The aggregate current debt for water and waste water facilities in these ten communities is presently $6 million, imposing an average annual infrastructure debt per household of $635[3].

Secondly, in these ten communities, the average monthly rate per household for combined water and waste water service, including debt repayment, presently exceeds $21.00, or $240 per year (column 3). We note that this annual average water/waste water rate exceeds the annual average of 1% of household income ($214) for these ten communities (column 10).

Finally (although not reported in the tabular data because of the imprecise nature of the estimates provided by the local officials), all but one of these communities reported immediate infrastructure renewal needs greater than $500,000. Three of the needed projects will exceed $1 million, two will exceed $2 million and one will exceed $5 million. Given the present circumstances in these ten communities, will the mix of TSEP incentives be appropriate to move their infrastructure renewal programs forward?

TABLE I

	(1)	(2)	(3)	(4)	(5)
CLASS III CITY	ESTIMATED # OF HOUSEHOLDS[5]	MEDIAN HOUSEHOLD INCOME[6]	1992 AVERAGE HOUSEHOLD WATER & WASTEWATER RATE/MONTH	1992 SYSTEM DEBT PER HOUSEHOLD [7]	1992 HOUSEHOLD DEBT SERVICE PER MONTH
Choteau	688	$19,482	15.60	$291	3.51
Columbia Falls	1225	23,328	17.52	980	6.46
Deer Lodge	1322	21,775	18.17	635	7.31
Forsyth	839	26,729	22.50	1430	9.63
Hardin	1162	21,045	30.39	77	2.01
Harlem	355	18,977	36.72	1566	7.75
Laurel	2247	21,117	21.98	284	2.97
Malta	925	19,836	27.04	492	5.59
Sidney	2062	23,120	11.00	337	1.58
Townsend	646	18,594	13.60	259	1.68
AVERAGE	1147	21,400	21.5	635	4.85

The data reported at Tables II and III assume that a $1 million dollar project is needed in each of these ten cities. Using that assumption, and an assumed interest rate of 7% over a twenty-year redemption period, Table II and III compare the financial impact of the funding mechanisms provided by the Treasure State Endowment program. From the viewpoint of local government, these alternative funding mechanisms comprise the "mix of incentives" local officials will consider in making infrastructure investment decisions for their communities[4]:

1) Direct loans at a subsidized interest rate, which will vary depending upon the community's median household income;

2) Annual debt service subsidies payable to the local government in an amount not to exceed 50% of the annual debt service;

3) Direct matching grants up to 50% of the project cost (75% in the case of extreme hardship); and

4) Deferred loans for planning and preliminary engineering.

FINDINGS

Impact of New Debt. Table II demonstrates that incurring $1 million of additional infrastructure debt, whether at a subsidized interest rate or with an annual interest subsidy payment, will exceed the 8% of household income standard (the CBDBG debt standard) in the five smallest communities included in this regionalized sample (column 9). This finding is consistent with the earlier findings of Dr. Haines that smaller communities can't afford to take on $1 million in debt. It also validates the fact that, in Montana, small communities tend to have

TABLE II

	(6)	(7)	(8)	(9)
CLASS 3 CITY	8% OF HOUSEHOLD INCOME	1992 SYSTEM DEBT PER HOUSEHOLD	TOTAL DEBT PER HOUSEHOLD WITH $500,000 TSEP GRANT	TOTAL DEBT PER HOUSEHOLD WITH $500,000 INTEREST SUBSIDY
Choteau	$1559	291	1017	1744
Columbia Falls	1866	980	1388	1796
Deer Lodge	1742	635	1014	1392
Forsyth	2138	1430	2026	2622
Hardin	1684	77	507	937
Harlem	1518	1566	2975	4383
Laurel	1689	284	507	729
Malta	1507	492	1032	1573
Sidney	1850	337	580	822
Townsend	1488	259	1033	1806
AVERAGE	1712	635	1028	1780

below average household incomes. In this sample, five of the six smallest municipalities have median household incomes below the household income average of the group (column 2). This pattern is replicated throughout Montana, where we find that the average 1990 median household income of Class I cities is greater than that of Class II cities. Class II income is, in turn, higher than the income of Class III cities; Montana's 78 incorporated Towns of fewer than 1,000 citizens has the lowest average household income.

Additionally, the size of the community is itself a critical variable in assessing the affordability of using debt financing for infrastructure projects. We use eight per cent of the average household income of this group of ten Class III cities as the standard of debt affordability (.08 x $21,400 = $1,712). By this standard, no Montana community comprised of fewer than 575 household--those of approximately 1500 population--could afford to borrow $1 million at zero percent interest to fix a water or waste water system, even if they had no existing debt. By the same logic, no community of fewer than 287 households (approximately 700 population) could afford to borrow even $500,000 at zero percent interest.

The significance of this finding is that two thirds (84) of Montana's 128 incorporated municipalities, and practically all of its 530 rural water and sewer districts serve populations of less than 1,500 people. Nearly half (58) serve populations of under 700 people. Low interest loans, with or without annual interest subsidies, are not likely to provide sufficient incentive to the local officials in these smaller communities to undertake substantial, additional debt for infrastructure renewal. This is even less so, given the amount of existing water and wastewater debt already in place.

TABLE III

	(10)	(11)	(12)	(13)	(14)
CLASS 3 CITY	1 % OF HOUSEHOLD INCOME PER MONTH	TOTAL DEBT SERVICE PER MONTH PER HOUEHOLD WITH TSEP GRANT	TOTAL RATE PER MONTH WITH TSEP GRANT	TOTAL DEBT SERVICE PER MONTH PER HOUSEHOLD WITH LOAN SUBSIDY	TOTAL RATE PER MONTH WITH TSEP INTEREST SUBSIDY
Choteau	16.24	9.3	21.32	11.92	24.01
Columbia Falls	19.44	9.67	20.73	11.18	22.14
Deer Lodge	18.15	10.29	21.15	11.69	22.54
Forsyth	22.27	14.32	27.19	16.53	29.39
Hardin	17.54	5.39	33.78	6.99	35.37
Harlem	15.81	18.83	47.80	24.04	53.01
Laurel	17.60	4.72	23.73	5.54	24.55
Malta	16.53	9.84	31.29	11.84	33.29
Sidney	19.27	3.49	12.90	4.38	13.80
Townsend	15.50	7.77	19.69	10.63	22.55
AVERAGE	17.84	9.35	25.96	11.47	28.01

The reverse appears to be true for the larger communities in this sample of Class II cities and, in general, for our larger Class I and Class II cities. For example, the average Class II city in Montana could afford to take on as much $5 million debt for infrastructure without exceeding the 8% CDBG standard. For this size community, annual interest subsidy payments in combination with direct low interest loans might seem a very attractive incentive for local officials to get on with the job at hand. Similarly, the average Class I city could assume more than $20 million in infrastructure debt and remain within 8% of the annual median household income standard. In these larger communities, access to substantial and relatively low-interest infrastructure financing alone would almost certainly provide a powerful incentive to address infrastructure needs.

The size of the community is a critical variable in assessing the affordability of using debt financing for infrastructure projects

Impact of Debt Service. As noted above, the average household, combined water and waste water rate found in these ten Class III Cities was approximately $21.00 per month or $240.00 per year (column 3). The average amount of debt service included in that monthly rate is $4.85, leaving an average monthly O&M cost of approximately $16.15 per household. This suggests that it may be reasonable as a policy consideration to set a minimum combined base water and waste water rate of at least $15.00 as a condition of eligibility for TSEP assistance with water or waste water projects. Additionally, Table III compares the impact of $500,000 payable as an "up front" or as an interest subsidy in twenty annual installments of $25,000 on these existing water/waste water rates (columns 12 and 14).

Table III indicates that, whether received in the form of an up-front grant or as annual interest subsidy installments, the resultant water/waste water rates in all ten cities will exceed the 1% of household income target now used by the CDBG program. In general, the smallest communities will have the highest resultant rates. Although we note only marginal differences in the impact of a $500,000 "up front" grant as compared to the same amount paid as an annual interest subsidy, we do note that, the smaller the community, the more advantageous the "up grant" must appear. For example, a $500,000 "up front" grant will save rate payers in the City of Harlem $5.21 per month, compared to the rates they would pay with an annual interest subsidy. On the other hand, the rate payer in Sidney, a much larger community, would save less than one dollar per month by receiving a $500,000 grant as compared to the same amount received in the form of an annual interest subsidy.

In short, "up front" grants will provide a more powerful incentive to the smaller Class III cities as well as to all of Montana's 78 incorporated Towns than will annual interest subsidies. Conversely, the incentive of "up front" grants diminishes rather sharply for Class II cities and, given the limited TSEP grant or interest subsidy resources available as compared to the scale of the projects, will be virtually irrelevant to the rate payers in Class I cities.

CONCLUSIONS

This brief analysis of ten medium-sized Montana cities suggests that the mix of incentives provided by the Treasure State Endowment Program is congruent with the diversity of infrastructure needs and financing capabilities found in Montana's communities. However, given the reality that only $1.5 million will be available during the first funding biennium for grants and interest subsidies, it is clear that local officials in Montana's larger communities will find little incentive to move forward with infrastructure projects without the enactment of direct and substantial loan authority at advantageous rates. For example, we note that the difference between a 7% and 6% interest rate on $10 million dollar loan amortized over twenty years will result in a $1.5 million dollar savings to the rate payers in any one of Montana's larger municipalities.

At the other end of the spectrum, expanded loan authority, even at rates as low as zero percent interest, will offer little incentive to the officials in Montana's smaller communities. To help keep total infrastructure indebtedness and debt service affordable in these communities, local officials will need significant grants to write down the total cost of the project; or, somewhat less preferably, grants in the form of annual interest subsidies to make the debt service a bit more bearable by their rate payers.

Moreover, in the smallest communities, annual interest subsidies will seem much less of an incentive to tackle infrastructure renewal than will an "up front" cash grant. For these communities, the competition for the limited available TSEP grant resources may seem even more formidable than the present competition for the grant resources of the CDBG program. Hence, from the point of view of the elected leadership of Montana's smallest communities, perhaps the most powerful incentive to move forward with the painful process of infrastructure renewal will be relatively easy access to small ($50,000) TSEP loans or grants to help pay for preliminary engineering and project planning[8].

Lacking "in-house" professional engineering and planning staff, this first vital step in the infrastructure renewal process is a giant step for the "citizen-volunteer" mayors and council members who serve these small communities. The ready availability of a small TSEP engineering loan or grant to clear this first and formidable hurdle will almost certainly enable and encourage many of these officials to make their first infrastructure renewal decision. □

Notes

[1] See for example, "Rebuilding the Foundations: A Special Report on Financing State and Local Public Works Financing and Management", Office of Technology Assessment, Congress of the United Sates, March, 1990.

[2] See for example, "American City and County", October, 1991.

[3] By way of context, Haines reports a 1989 total of $133 million in Montana municipal debt and that "Seventy-two percent of this debt is in the form of revenue bonds, almost all of which are in support of water and sewer systems". Haines, cited above, p.39. In passing we note the need for the development of comprehensive data bases detailing the rate structures of Montana's community water and waste water systems.

[4] "Treasure State Endowment Program: 1992 Application Guidlines For Public Facilities Projects", Montana Department of Commerce, November, 1992.

[5] The number of housholds was estimated by dividing the 1990 municipal population by 2.53.

[6] Source for median houshold income is the 1990 federal census as reported by the Montana Department of Commerce.

[7] This is the existing water and waste water system debt reported by the city government as of June 30, 1992.

[8] The importance of local government access to resources to fund preliminary engineering studies of public works projects was frequently noted during the TSEP public hearings.

APPENDIX D

REVIEW QUESTIONS FOR THE TSEP STATUTORY PRIORITIES

REVIEW QUESTIONS FOR THE TSEP STATUTORY PRIORITIES

The state agency ranking teams compared each applicant's response to the nine statutory priorities by asking a series of questions related to each priority. The nine priorities and the questions considered under each are listed below.

STATUTORY PRIORITY #1

Projects that solve urgent and serious public health or safety problems.

a. Does a serious deficiency exist in a basic or necessary community public facility or service, such as the provision of a safe domestic water supply (or that the community lacks the facility or service entirely)?

b. Have circumstances clearly attributable to a deficiency occurred, or are they likely to occur, such as serious illness, disease outbreak, substantial property loss, serious environmental pollution, or serious safety problems or hazards?

c. Is the entire community or a substantial portion of the residents of the community seriously affected by the deficiency?

d. Is the problem existing, continual, and chronic as opposed to occasional, sporadic, probable or potential?

e. Is there written documentation from state or federal agencies which substantiates the seriousness of the deficiency, such as a "boil order" issued by the Montana Department of Health and Environmental Sciences?

STATUTORY PRIORITY #2

Projects that enable local governments to meet state or federal health or safety standards.

a. Is the proposed TSEP project necessary to comply with a court order or a State or federal agency directive?

b. Is there clear documentation that the current condition of the public facility (or lack of a facility) violates a state or federal health or safety standard?

c. Does the health or safety standard which is being violated represent a significant threat to public health or safety (after considering the questions listed for Legislative Priority #1)?

d. Does the project thoroughly address the problem and provides a reasonably complete and long-term solution for compliance with the health or safety standard?

STATUTORY PRIORITY #3

Projects that enable local governments to obtain funds from sources other than TSEP.

a. Will TSEP participation in the proposed project enable or assist the applicant to obtain funds from sources other than TSEP?

b. Will the proposed TSEP project will leverage a high ratio of non-TSEP investment in relation to the TSEP funds requested?

c. Are non-TSEP funding sources committed and will they be available when TSEP funds are provided?

d. If non-TSEP funding commitments have not been secured, has the applicant provided evidence of serious efforts to thoroughly seek out and secure the firm commitment of alternative or additional funds from all appropriate public or private sources to finance or assist in financing the proposed project?

STATUTORY PRIORITY #4

Projects that provide long-term, full-time job opportunities for Montanans.

a. Has the applicant provided clear documentation that the proposed TSEP project will directly result in the creation or retention of a substantial number of long-term, full-time jobs for Montanans?

b. Has the applicant clearly justified the claimed number of indirect long-term, full-time jobs to be created or retained as a result of the TSEP project?

STATUTORY PRIORITY #5

Projects that provide public facilities necessary for the expansion of a business that has a high potential for financial success.

a. Has the applicant thoroughly documented that the proposed business expansion requires TSEP assistance to provide public facilities in order to proceed?

b. Is the business plan for the specific firm(s) to be assisted by the proposed TSEP project a realistic, well-reasoned business expansion proposal and clearly demonstrates that the firm to be assisted has a high potential for financial success, if TSEP funds are received?

STATUTORY PRIORITY #6

Projects that result in a benefit to the public commensurate with the amount of financial assistance requested.

a. Does the project thoroughly address the problem and provide a reasonably complete and long-term solution in relation to the applicant's financial capacity and available funding sources?

b. In cases where the proposed project will not completely resolve the community's public facilities need, is the project consistent with an adopted capital improvements program and does it represent a complete component of the overall program?

c. Has the applicant proposed equitable, cost-effective means of minimizing adverse financial impacts or maximizing benefits, such as establishing a metered water system to encourage conservation and to allocate costs on the basis of actual use?

d. After thoroughly considering all reasonable alternatives, does the proposed project represent the most efficient, appropriate, and cost effective option for resolving the applicant's public facility need, considering the size and financial resources of the community, the complexity of the problems addressed, and the cost of the project?

e. In the case of TSEP matching grants, does the amount of TSEP funds requested per household to be assisted exceed $5,000 per household, unless both affordability tests described in the TSEP Application Guidelines are met ("TSEP Grant Ceiling Per Household", page 17-18)?

STATUTORY PRIORITY #7

Projects that reflect greater need for financial assistance than other projects.

a. Does DOC's comparative analysis of financial indicators for all TSEP applicants demonstrate that the applicant's need for TSEP assistance is greater than other applicants?

b. Does DOC's analysis of the proposed project budget and local financial capability clearly support the applicant's lack of ability to pay the projected costs without TSEP assistance and that the applicant's proposed level of local financial participation in the project is the maximum that can reasonably be expected?

c. Has the applicant clearly documented that all avenues to fund the proposed project with local resources have been exhausted and the proposed project could not reasonably be accomplished without TSEP assistance to fill a financial gap?

STATUTORY PRIORITY #8

Projects that maintain or do not discourage expansion of the tax base.

a. Has the applicant provided clear documentation that the proposed TSEP project will support and not discourage expansion of the private property tax base?

b. Did the applicant seriously evaluate the option of utilizing the private sector to resolve the identified public facility problem, in situations where a private sector alternative may be reasonably appropriate and capable of providing a long-term, cost-effective solution?

STATUTORY PRIORITY #9

Projects that are high local priorities and have strong community support.

a. Did the applicant provide thorough documentation of active citizen participation, including at least one public hearing held to discuss the proposed TSEP project with the affected community residents?

b. Has the applicant provided thorough documentation that local citizens and affected property owners have been informed of the estimated cost per household of any anticipated increases in assessments or user charges and are in support of the project?

c. Has the applicant assessed its public facility needs, established priorities for dealing with them through an officially adopted public facilities plan or a capital improvements program, and is the proposed TSEP project a high priority of that plan or program?

NOTE: Documentation may include public hearing minutes, community surveys, letters of support from organizations or individuals, newspaper articles, etc.

APPENDIX E

SUMMARIES OF THE APPLICATIONS SUBMITTED FOR FUNDING THROUGH THE 1993 TREASURE STATE ENDOWMENT PROGRAM

APPLICATIONS FOR THE 1993

TREASURE STATE ENDOWMENT PROGRAM (TSEP)

	AMOUNT REQUESTED	TOTAL PROJECT
PUBLIC FACILITY (29 Applications)		
Anaconda/Deer Lodge County (water)	$350,000	$ 4,425,000
Beaverhead County (solid waste)	160,000	320,000
Butte/Silver Bow County (water)	300,000	23,215,000
Carbon County (bridge)	25,000	120,000
Chester (water)	196,235	394,470
Circle (water)	370,000	370,000
Custer County (solid waste)	18,900	18,900
Dutton (water)	68,780	693,280
Ennis (water)	400,000	1,060,000
Froid (water)	117,000	576,600
Gallatin Co. for Rae Subdivision (water)	49,870	66,490
Harlem (water)	217,300	434,600
Helena (water)	677,265	1,354,531
Lewistown (storm drainage)	60,000	165,264
Livingston (storm drainage)	100,000	200,000
Madison County (solid waste)	66,850	79,100
Missoula Co. for Sunset West (water)	154,107	309,107
Neihart (water)	616,213	726,231
Ronan (sewer)	309,107	618,215
Richland County (solid waste)	570,500	1,141,000
Sanders County/Heron Bridge (bridge)	2,735,000	2,735,000
Sanders County/Noxon Bridge (bridge)	2,156,000	2,156,000
Shelby (storm drainage/sewer)	732,000	980,300
Stillwater Co. for Reedpoint (sewer)	250,000	1,312,645
Toole Co. for Sweetgrass (water)	366,040	366,040
Toole Co. for Sweetgrass (sewer)	162,925	162,925
Wolf Point (sewer)	50,000	564,900
Yellowstone County (bridge)	95,500	193,110
Yellowstone Co. for Huntley (water)	100,000	745,300
TOTAL	$11,474,592	$45,622,218
ENGINEERING LOANS (3 applications)		
Circle (water)	$ 20,000	$ 20,000
Wheatland County (solid waste)	33,000	35,000
Yellowstone Co. for Shepherd (water)	100,000	118,210
TOTAL	$ 153,000	$ 173,210

Summary of TSEP Applications

Bridge	4
Sewer	4
Solid Waste	4
Storm Drainage	3
Water	14
Engineering Loan	3
TOTAL	32

In addition, the Montana Department of Health and Environmental Sciences (DHES), Water Quality Bureau, has requested $2,479,000 in TSEP funds to use as state match for federal funds used to capitalize the Montana State Revolving Loan Program which provides loans for sewer and wastewater projects. (DHES is not an eligible applicant for TSEP, under the existing statute and regulations.)

Including the DHES request, total requests for TSEP funds equal $14,106,592.

The original September, 1992, estimate of the total TSEP funds to be available during Fiscal Years 1994 and 1995 was $1,562,000.

The current estimate as of February, 1993, updated to reflect changes in coal production and interest rates, projects available TSEP funding for Fiscal Years 1994 and 1995, after subtracting administrative expenses, at approximately $2,282,489.

(tsepsum/colleen 2-8-93)

PROJECT NO. 1

APPLICANT: City and County of Butte-Silver Bow

PROJECT NAME: Butte Water System

AMOUNT OF TSEP REQUEST: $ 300,000 Grant

OTHER FUNDING SOURCES: $ 11,500,000 1992 Revenue Bonds
$ 11,415,000 1993 Revenue Bonds
Total: $ 22,915,000

TOTAL PROJECT COST: $ 23,215,000

TSEP FUNDING RECOMMENDED: $ 300,000 Grant

PROJECT SUMMARY:

Since the founding of Butte, its water system has been owned and operated by the Butte Water Company, a privately held corporation. In January of 1992, the City and County of Butte-Silver Bow purchased the water system.

The reason for the purchase was to facilitate the construction of approximately $23,215,000 of capital improvements to the water system with the least possible impact to the system's rate payers. The improvements, transmission main upgrades, and the construction of water filtration facilities are required under the provisions of the Safe Drinking Water Act and the Surface Water Treatment Rule. Some improvements have already been initiated and the remainder will be constructed over the course of the next two years.

Due to a serious potential for health related problems caused by the inadequate water system, there is currently a health advisory imposed on Butte-Silver Bow. In addition, there is a prohibition against hooking on any new users or extending water lines. Butte-Silver Bow is under a state and federal consent decree (legal requirement) to repair its water system by December 31, 1994.

To finance the water project, two series of revenue bonds totaling about $29 million would be issued. The City and County of Butte-Silver Bow is requesting a $300,000 matching grant from the Treasure State Endowment Program to lessen the financial burden on the users of the water system. TSEP funds would help pay for improvements to the Big Hole River facility, Basin Creek Reservoir facility, Moulton System, storage tanks, distribution system, and telemetry and controls.

PROJECT NO. 2

APPLICANT: Anaconda-Deer Lodge County

PROJECT NAME: Anaconda-Deer Lodge County Water System Improvements

AMOUNT OF TSEP REQUEST: $ 350,000 Grant

OTHER FUNDING SOURCES: $ 375,000 CDBG
$3,700,000 Revenue Bonds

TOTAL PROJECT COST: $4,425,000

TSEP FUNDING RECOMMENDED: $ 350,000 Grant

PROJECT SUMMARY:

Since the early 1890's, ownership of the water system serving Anaconda, Montana (the Butter Water Company) was owned by the companies which controlled mining and related processing operations in the area. Recurring boil orders were issued by the Montana Department of Health and Environmental Sciences because of bacteria in the portion of system supply utilized during late spring and summer as a peaking supply to augment the system's three wells.

In May, 1991, mounting pressure from public health agencies and the public, combined with the company's apparent inability to improve the system, gave rise to an order by Montana Public Service Commission (PSC) for the Butte Water Co. to sell its assets. The result for Anaconda-Deer Lodge was the purchase of its water system on January 22, 1992. As part of its order approving sale, the PSC mandated that Anaconda-Deer Lodge complete improvements related to water storage, transmission, distribution, and compliance with state and federal water quality laws.

The major elements of the project include: construction of a water storage tank and related transmission piping and equipment; renovation of the system's three existing wells, construction of three new wells, and improvement of pumping facilities; a distribution system leakage repair program, focusing in the first two years on main replacement under Anaconda's two major arterial streets in conjunction with a Montana Department of Transportation pavement renewal project.

PROJECT NO. 3

APPLICANT: Carbon County

PROJECT NAME: Sand Ford Bridge Project

AMOUNT OF TSEP REQUEST:	$ 25,000	Grant
OTHER FUNDING SOURCES:	$ 50,000	Carbon County
	$ 45,100	U.S. Forest Service
TOTAL PROJECT COST:	$ 120,100	
TSEP FUNDING RECOMMENDED:	$ 25,000	Grant

PROJECT SUMMARY:

The Sand Ford Bridge is one of nine bridges in Carbon County in need of major repair or replacement. This bridge was given top priority for replacement by the County Commissioners due to safety hazard it poses. In spring of 1991, a review of the bridge by State Highway Department inspectors revealed significant damage to the structural components of the bridge. A patchwork repair job has kept the bridge operable to date, but has not removed all of the safety concerns of the Commissioners. An assessment of solutions to the problem determined that the best alternative is to replace the bridge.

The Sand Ford Bridge hosts a variety of users, ranging from ranchers to outdoor recreation, obtaining access to the East Rosebud canyon south of Roscoe. In the peak season, an average of 200 vehicles per day use this route. This area has become increasingly popular in the last ten years,, with housing development and tourist traffic on a dramatic rise. In the summer of 1992, 17 new homes were constructed and an estimated 10,000 travellers passed through the area.

The construction method selected for this bridge utilizes laminated timbers for the superstructure. These timbers, obtained from Montana forests and manufactured locally, provide a long lasting and cost effective material. The bridge, complete with abutments and approaches, carries a price tag of $120,100. This application requests $25,000 from TSEP to match the Carbon County contribution of $50,000. The remaining $45,100 is anticipated from the U.S.D.A. Forest Service's Timber Bridge Initiative.

PROJECT NO. 4

APPLICANT: Town of Neihart, Montana

PROJECT NAME: Neihart Water System Improvements

AMOUNT OF TSEP REQUEST:	$ 616,213	Grant
	$ 50,000	Loan with subsidized interest rate
OTHER FUNDING SOURCES:		FmHA grant & low interest loan pending
TOTAL PROJECT COST:	$ 726,231	
TSEP FUNDING RECOMMENDED:	$ 544,673	Grant

PROJECT SUMMARY:

The proposed project would include a new EPA-mandated treatment plant and pipe system replacement. Neihart has been under boil orders since 1980 and an administrative court order since 1988 to correct its drinking water problems.

Neihart's water system was originally constructed for mining process water, electrical power, and domestic water needs. The water main serving Neihart today was installed in 1892. The piping system was originally installed at a shallow depth, because the water moving through the generator also prevented freezing. After the generator was removed, pipe freezing became a frequent problem. Now, it is unlawful and uneconomical to discharge chlorinated water to Belt Creek, the receiving stream. Because of changing regulations, the town's untreated creek water source was replaced by Black Chief Springs. Black Chief is an inadequate source of water because it is too low in elevation, the water quality is indicative of a surface water, and private parties have prior water rights. The spring provides insufficient water volume for Neihart's needs.

Of the 82 water users, about 53 are seasonal users. Approximately 60% of the 29 permanent households have been classified as low income. Because of the higher income, seasonal users, the town is ineligible for grants from CDBG or the Rural Development Administration (formerly Farmers Home Administration). Neihart was successful in receiving a $50,000 DNRC grant and $150,000 loan in 1991. A FmHA application for loan funds is pending. Neihart has made application for CDBG, EPA, FmHA, DSL, and DNRC funds. All conventional funding sources have been exhausted. Because of the small rate base homeowners cannot afford the resulting high debt service costs required if the town had to finance the entire project itself.

PROJECT NO. 5

APPLICANT: Missoula County

PROJECT NAME: Sunset West water system improvements

AMOUNT OF TSEP REQUEST:	$ 154,107	Grant
OTHER FUNDING SOURCES:	$ 155,000	Sunset West Homeowners Association (RSID)
TOTAL PROJECT COST:	$ 309,107	
TSEP FUNDING RECOMMENDED:	$ 154,107	Grant

PROJECT SUMMARY:

The project would increase supply and improve distribution of water for the area commonly know as Sunset West in Missoula County. Currently, 44 lots, or 37 homes, are served by a community water system that has been plagued by inadequate supply and contamination for at least 15 years. Three wells serve the development at this time, with the best well producing an average of 2.5 gallons per minute over a 24 hour period. Some homes in the development have been without water for at least two months, others are on a day-to-day basis as to whether or not they will have water. As of November 24, 1992, 51 per cent of the water samples for 1992 have tested positive for coliform bacteria, including fecal contamination. The residents are under a permanent boil order from the State Water Quality Bureau.

The primary improvements would be a 10,000 linear feet of water main to connect a new off-site well to the storage tank (new well was drilled in 1991 - paid for by the homeowners), fully developing the new well, chlorination, telemetry, pump house, existing distribution system leak detection survey and improvements, disconnection of private wells illegally using the distribution lines, curb stop locations/installations and fire hydrants.

In September of 1992, the Sunset West Homeowners Association was issued an Administrative Compliance Order by the State Department of Health and Environmental Sciences. The proposed improvements will meet the requirements of the Order.

PROJECT NO. 6

APPLICANT: Yellowstone County

PROJECT NAME: Yellowstone County - King Avenue West Bridge

AMOUNT OF TSEP REQUEST:	$ 95,500	Grant
OTHER FUNDING SOURCES:	$ 49,860	Applicant
	$ 47,750	United Industry (Private)
TOTAL PROJECT COST:	$ 193,110	
TSEP FUNDING RECOMMENDED:	$ 95,500	Grant

PROJECT SUMMARY:

Yellowstone County needs to replace an old 2 lane bridge on King Avenue West with a new 4 lane bridge. King Avenue is being widened to 4 lanes to accommodate a large increase in traffic caused by construction of large scale new commercial development.

The bridge replacement project would protect public health and safety by reducing traffic accidents and reducing air pollution. It would provide a missing link in the need to widen King Avenue in this area to 4 lanes. The new bridge would provide safe access to a new 400,000 square feet retail development and other existing stores.

Unless the bridge is replaced, traffic accidents are projected to triple. If it is completed, traffic accidents would increase only 0.33 %. Unless the bridge is replaced commuters would experience 50,000 hours of delays annually. The fuel costs for their delays would be $150,000 per year.

Yellowstone County proposes to replace the bridge with a new four lane "bulb tee" bridge which would be paid for using a three way partnership between Yellowstone County, the private sector, and the Treasure State Endowment. The County can not afford to fund this project by itself due to the need to also replace 64 other bridges in the County.

PROJECT NO. 7

APPLICANT : Town of Circle

PROJECT NAME: Circle Water Improvement Project

AMOUNT OF TSEP REQUEST:	$ 370,000	Grant
OTHER FUNDING SOURCES:	$ 370,000	FmHA Grant/Loan to be applied for
		(Also a CDBG grant to be applied for. No amount stated)
TOTAL PROJECT COST:	$ 740,000	
TSEP FUNDING RECOMMENDED:	$ 370,000	Grant

PROJECT SUMMARY:

The municipal water supply for the Town of Circle is drawn from two deep water wells placed in the Fox Hill Sands geologic formation. This water has a high natural fluoride content that exceeds the maximum level allowed by the Montana Department of Health and the Environmental Protection Agency. Also, the water has a high sodium and solids content.

In May of 1988, the Town received a notice of noncompliance from the Montana Department of Health because of the excessive level of the fluoride and the significant health risk it poses. Excess fluoride causes dental mottling in young persons as well as skeletal fluorosis (wearing away of bones) in some people. The letter also required the Town to obtain engineering information on costs to correct the fluoride problem. In addition, the high sodium (salt) content is a health concern to persons who must reduce the amount of salt in their diet.

Estimates for corrective water treatment options for the fluoride problem were provided to the Town by Interstate Engineering of Sidney, Montana. Two options were presented. The Town, working with its engineer, will need to select a final water treatment option and prepare final engineering plans.

TSEP funding for this project would help the town upgrade its water quality which would eliminate a health hazard and allow the Town to meet state and federal standards.

PROJECT NO. 8

APPLICANT: Town of Circle

PROJECT NAME: Water Improvement Project Engineering

AMOUNT OF TSEP REQUEST: $ 20,000 Deferred Loan

OTHER FUNDING SOURCES: None

TOTAL PROJECT COST: $ 20,000

TSEP FUNDING RECOMMENDED: No TSEP funding recommended.

PROJECT SUMMARY:

The municipal water supply for the Town of Circle is drawn from two deep water wells placed in the Fox Hill Sands geologic formation. This water has a high natural fluoride content that exceeds the maximum level allowed by the Montana Department of Health and the Environmental Protection Agency. Also, the water has a high sodium and solids content.

In May of 1988, the Town received a notice of noncompliance from the Montana Department of Health because of the excessive level of the fluoride and the significant health risk it poses. Excess fluoride causes dental mottling in young persons as well as skeletal fluorosis (wearing away of bones) in some people. The letter also required the Town to obtain engineering information on costs to correct the fluoride problem. In addition, the high sodium (salt) content is a health concern to persons who must reduce the amount of salt in their diet.

Estimates for corrective water treatment options for the fluoride problem were provided to the Town by Interstate Engineering of Sidney, Montana. Two options were presented. The Town, working with its engineer, would need to conduct further analysis of the treatment options and prepare a comprehensive preliminary engineering plan.

TSEP funding for this project would help the Town complete a preliminary engineering plan so that the Town can qualify for financing from state and federal assistance agencies and construct the needed improvements.

PROJECT NO. 9

APPLICANT: Stillwater County

PROJECT NAME: Reed Point Water & Sewer Facility Plan

AMOUNT OF TSEP REQUEST: $ 250,000.00 Grant

OTHER FUNDING SOURCES: $ 78,161.25 FmHA loan
$ 984,483.75 FmHA grant

TOTAL PROJECT COST: $1,312,645.00

TSEP FUNDING RECOMMENDED: $ 200,000.00 Grant

PROJECT SUMMARY:

This project would implement the 1992 Facility Plan for Reed Point, Montana. The plan evaluates numerous alternatives for constructing a sewer system for this unincorporated rural community located in Stillwater County. The community currently disposes of waste water by way of cesspools and septic tanks while drinking water is provided by individual wells. Groundwater quality is adversely impacted by substandard separation between wells and drainfields. Current DHES recommended land area for properties containing both individual water and sewer is approximately one acre. Houses in Reed Point are generally located on one quarter acre parcels.

The facility plan recommends construction of a conventional gravity flow sewer collection system. The plan evaluated 5 sewage treatment systems and has recommended a non-discharging 11 acre holding pond facility as the most efficient and cost-effective alternative. The lack of a basic community service, such as Reed Point experiences, is harmful to the environment, public health and limits the opportunity for economic development.

PROJECT NO. 10

APPLICANT: Beaverhead County Commissioners

PROJECT NAME: Beaverhead County Landfill

AMOUNT OF TSEP REQUEST: $ 160,000 Grant

OTHER FUNDING SOURCES: $ 160,000 Beaverhead County

TOTAL PROJECT COST: $ 320,000

TSEP FUNDING RECOMMENDED: $ 160,000 Grant

PROJECT SUMMARY:

The retired Beaverhead County landfill, located directly above the City of Dillon's drinking water wells and the Beaverhead River, has been ranked as one of the most hydrogeologically sensitive landfills in the entire state. The Montana Department of Health and the federal Environmental Protection Agency have classified groundwaters in the area as Class I, which are defined as "special groundwaters that are highly vulnerable to contamination and are either irreplaceable sources of drinking water or are ecologically vital."

The county has been mandated to close this landfill in the quickest and most effective manner possible. Closure involves covering the old site; contouring and building diversion ditches for rainfall and runoff; reseeding the area with native vegetation; and implementing an on-going, 30-year monitoring program.

In anticipation of the landfill closure, the county doubled the refuse fees it charges.

PROJECT NO. 11

APPLICANT: City of Ronan

PROJECT NAME: City of Ronan's Wastewater Collection System and Treatment Facility Rehabilitation Project

AMOUNT OF TSEP REQUEST:	$ 309,107	Grant
OTHER FUNDING SOURCES:	$ 90,000	City of Ronan
	$ 219,108	Loan from State Revolving Fund
TOTAL PROJECT COST:	$ 618,215	
TSEP FUNDING RECOMMENDED:	$ 100,000	Grant

PROJECT SUMMARY:

The proposed project would rehabilitate the City of Ronan's wastewater collection system and treatment facility.

Ronan's wastewater treatment facility consists of a three cell, aerated lagoon with a large fourth cell which provides additional holding capacity. A comprehensive evaluation of the facility conducted in 1990 by the Montana Department of Health and Environmental Sciences, showed that the facility does not deliver the required amount of oxygen and it has been cited consistently for a trend of non-compliance with criteria set by the MPDES permit. A leak in the embankment of cell #4 has resulted in release of wastewater not in compliance with discharge permit criteria.

Proposed improvements include:

* rehabilitation of the wastewater treatment facility including retrofitting the aeration system and repair and upgrading of cell #4;

* rehabilitation and capacity upgrade of the Spring Creek lift station;

* repair/retrofit where needed within the sewage collection system to remove sedimentation; replace concrete and wood lines with PVC pipe to limit ground water infiltration; increase slope and pipe diameters to boost flow capacity; and upgrade remaining lift/ejector stations;

* construction of a second highway crossing and new interceptor sewer to route east and southeast flows to the Spring Creek lift station.

PROJECT NO. 12

APPLICANT: City of Shelby

PROJECT NAME: City of Shelby Sewage Collection System

AMOUNT OF TSEP REQUEST:	$ 732,000	Grant
OTHER FUNDING SOURCES:	$ 244,000	State Revolving Fund Loan
	$ 4,300	Funds supplied by the applicant
TOTAL PROJECT COST:	$ 980,300	
TSEP FUNDING RECOMMENDED:	$ 366,000	Grant

PROJECT SUMMARY:

The City of Shelby is currently facing a pubic health threat. In recent years, sewage backups have occurred in over fifty households, causing serious property damage and a public health threat. Shelby currently has comparatively high water, sewer, and sanitation rates, and a very high public debt.

The sewage backups are caused by rapidly deteriorating sewer lines which are broken, collapsed, tree root infested, and have the entire top of the sewage pipe missing in a large portion of the project area. Approximately 233 households and 18 businesses are served by these lines. Over 50 sewage backups have occurred in recent years. This represents 20 percent of the households and 50 percent of the businesses in the project area that have experienced sewage backups and property damage. Sewage manholes are in such a state of deterioration in the project area that many are not safe for city personnel to enter to address the frequent sewage backup situations. One sewer line, in very poor condition, serving a large area, actually goes under the Shelby Middle School building making it inaccessible for repairs.

Failure to quickly resolve the sewage collection system problems will soon result in a detrimental effect to the economic well being of Shelby. For example, the Town Pump Inc. would like to construct a new 80 unit motel and convention center. However, the proposed facility will need to hook onto a new interceptor sewer.

This project would allow the Town to repair its sewage collection system, thus, facilitating new development.

PROJECT NO. 13

APPLICANT: Wheatland County Commissioners

PROJECT NAME: Solid Waste Engineering Plan

AMOUNT OF TSEP REQUEST: $ 33,000 Deferred Loan

OTHER FUNDING SOURCES: $ 2,000 City/County Planning Board

TOTAL PROJECT COST: $ 35,000

TSEP FUNDING RECOMMENDED: $ 33,000 Deferred Loan

PROJECT SUMMARY:

The Wheatland County Commissioners believe that in order to solve the County's solid waste disposal problem they need to construct a landfill within the County. Currently, there is a landfill in Harlowton but it will be closing soon, leaving the County without a licensed disposal option. The Harlowton landfill is not in compliance with state or federal regulations.

Although Meagher and Golden Valley counties declined to form a solid waste district with Wheatland County, they expressed a willingness to use a landfill in Wheatland County.

At least three management options for the landfill need to be fully analyzed:

1) The County could form a district and build and operate a landfill. However, the Commissioners do not have a ruling at this time that a district can serve parties outside the district at a rate higher than it imposes on itself.

2) The County could encourage a private operator to build and license a landfill within the County. The private operator would not be restricted by district regulation as to other parties and could be regulated by contract.

3) The County could build and operate the landfill.

In addition, the site evaluations engineering and core drilling tests for three possible landfill locations needs to be done.

The County is requesting a Treasure State deferred loan to enable the County to draft a comprehensive and detailed plan with engineering analysis to solve the solid waste disposal problem.

PROJECT NO. 14

APPLICANT: City of Harlem

PROJECT NAME: Water Project

AMOUNT OF TSEP REQUEST: $ 217,300 Grant

OTHER FUNDING SOURCES: $ 217,300 EDA Grant, to be applied for

TOTAL PROJECT COST: $ 434,600

TSEP FUNDING RECOMMENDED: $ 217,300 Grant

PROJECT SUMMARY:

The City of Harlem is facing a critical water storage problem. The existing 50,000 gallon storage tank is at least 50 years old. Although old, the tank has been maintained well and is in good condition. It is the tank's small capacity that is cause for concern. The City cannot meet the following recommended standards: a two-hour maximum flow to fight fires, water pressure required for fire flow, and the required amount of storage for fire flow. Thus, the inadequate water system poses a public safety problem.

Since Harlem has only a 50,000 gallon storage tank, additional storage of about 350,000 gallons is required to meet Insurance Services Office (ISO) recommended standards for fire protection. Storage capacity less than ISO standards has resulted in poor fire insurance ratings and higher insurance rates in Harlem. The proposed project will involve the construction of a new 400,000 gallon tank to be located on a small hill north of the City to insure good water pressures are achieved throughout the community.

The new storage tank will ensure that the City has adequate water supply to meet operational and emergency needs. The project will also involve a thorough engineering study of the City's existing water distribution system, much of which was replaced in 1987. There are still some segments that need replacement, however.

The proposed water project is very important to the City's future. Harlem's rest home recently closed due to building code violations. Efforts are underway to construct a new facility. Unless the city can meet fire protection and water supply standards construction of a new rest home will not occur. The new rest home would employ 25 persons.

PROJECT NO. 15

APPLICANT: Yellowstone County

PROJECT NAME: Huntley Water District Water System Rehabilitation Project

AMOUNT OF TSEP REQUEST:	$ 100,000	Grant
OTHER FUNDING SOURCES:	$ 375,000	CDBG (to be applied for 9/93)
	$ 225,000	FmHA (to be applied for)
	$ 45,300	Local funds
TOTAL PROJECT COST:	$ 745,300	
TSEP FUNDING RECOMMENDED:	$ 100,000	Grant

PROJECT SUMMARY:

The proposed Huntley water system rehabilitation project seeks to bring more reliable water service and better quality water to the customers of the district.

The project would:

1. Provide a second well with a gas chlorination system. Adding a second well to the system will ensure continued water service in the event the town's only well is down for repairs while also creating a beneficial loop for water circulation. The Montana Department of Health requires all public systems to have two or more wells.

2. Improve water quality to customers in problem areas by system looping. The system has fifteen dead ends with the results being that water at and near the dead ends yellow, orange or black, contains sediment and is stagnant. Continual flushing results in wasting over 600,000 gallons of treated water per year.

3. Install nine new fire hydrants for fire protection. The present system has four fire hydrants two of which are not operational. Nine new fire hydrants will be installed to provide fire protection where none now exists.

4. Installing a larger capacity water storage facility nearer to the distribution system to allow for better circulation of treated water, provide ample water for fire protection purposes, and eliminate the costly tank location south of the Huntley Project irrigation canal.

PROJECT NO. 16

APPLICANT: Richland County

PROJECT NAME: Richland County Landfill (Sidney)

AMOUNT OF TSEP REQUEST:	$ 570,500	Grant
OTHER FUNDING SOURCES:	$ 300,809	Applicant, Tax Assessment
	$ 269,691	Richland Co. Solid Waste District
TOTAL PROJECT COST:	$ 1,141,000	
TSEP FUNDING RECOMMENDED:	$ 285,000	Grant

PROJECT SUMMARY:

The project would close the existing landfill and purchase the site for and construct a new county landfill.

The existing 80 acre landfill, owned and licensed by the City of Sidney, but operated by Richland County since 1981, has been shown to be deficient. Evaluation by consultants has shown that the existing landfill is a potential health hazard due to evidence of elevated specific conductance values in the first water-bearing layer. Thirty-seven area wells may be potentially affected if activity continues and no remediation is started.

The combined effect of poor soil conditions containing previous solid waste activities and the potential health hazard due to water contamination, motivated the County to find a new solution. Engineers evaluated alternatives whether to: 1) Remediate the existing site; 2) Establish a new landfill; or 3) Transport to an adjoining community. After economic analysis, establishing a new site was selected.

17 sites were evaluated before arriving at a new potential site. Once the site was selected, economic values were derived as illustrated in this document.

PROJECT NO. 17

APPLICANT: City of Wolf Point

PROJECT NAME: Sewer Project

AMOUNT OF TSEP REQUEST:	$ 50,000	Grant
OTHER FUNDING SOURCES:	$ 100,000	City of Wolf Point
	$ 405,400	loan from State Revolving Fund
	$ 9,500	Advance of Allowance from DHES Water Quality Bureau
TOTAL PROJECT COST:	$ 564,900	
TSEP FUNDING RECOMMENDED:		No TSEP funding recommended.

PROJECT SUMMARY:

The Town of Wolf Point uses a two cell waste stabilization pond to treat all domestic sewage produced by its users. The first cell has mechanical aerators installed to assist in the treatment of the wastewater. The second cell relies on natural elements to stabilize the wastewater. Wave action is a necessary element in the treatment of wastewater, but it is also a problem due its ability to cause erosion at the treatment cell sites. The effect of wave action erosion can be reduced by creating very gentle slopes such as the 7:1 slope that was originally constructed or by providing an erosion resistant material.

In the case of Wolf Point, the operating level has increased due to the addition of more people. The facility is currently experiencing severe erosion on the dikes that contain the wastewater. This erosion has been occurring since the facility was originally constructed in 1958, but the rate of erosion has been accelerating to the point that a dike failure is very probable in the next several years if no repair work is done.

The Town has examined various options to correct the problem and has determined that rebuilding the dikes to a 3:1 slope and installing a form of rip rap will extend the life of the facility and reduce the chance of accidental discharge of untreated wastewater into the Missouri River.

PROJECT NO. 18

APPLICANT: City of Lewistown, Montana

PROJECT NAME: Lewistown, Montana Third Avenue North Storm Project

AMOUNT OF TSEP REQUEST:	$ 60,000	Grant
OTHER FUNDING SOURCES:	$ 105,264	Gas Tax, Council Contingencies and Property Assessments
TOTAL PROJECT COST:	$ 165,264	
TSEP FUNDING RECOMMENDED:	$ 60,000	Grant

PROJECT SUMMARY:

The Lewistown, Montana Third Avenue North Storm Project involves the installation of a subsurface conduit for the collection and conveyance of storm water in a twelve block area of the north central portion of the City.

Drainage in this Third Avenue North area is presently surface drainage. Long dissipation periods result in much standing water. The standing water contributes to an unhealthy and unsightly environment and creates traffic hazards. It also raises the level of subgrade moisture which weakens the road surface and greatly increases maintenance costs.

In excess of 100 households would be immediately impacted by this improvement. This storm project will also benefit all persons whom are employees or patrons of the area businesses.

The completion of the Third Avenue North Storm System will enhance the appearance of this neighborhood, increase community pride, and influence the expansion of business opportunities in the City.

PROJECT NO. 19

APPLICANT: City of Helena

PROJECT NAME: Upper Hale Water Improvement Project

AMOUNT OF TSEP REQUEST: $ 677,265 Grant

OTHER FUNDING SOURCES: $ 677,266 City of Helena

TOTAL PROJECT COST: $ 1,354,531

TSEP FUNDING RECOMMENDED: $ 338,633 Grant

PROJECT SUMMARY:

The City of Helena is applying for a TSEP grant to fund the Upper Hale Water System Improvement Project. Deficiencies in the Upper Hale System constitute a serious fire protection problem, including:

1. No fire hydrants;
2. Undersized water mains that are over 100 years old;
3. Low water pressure; and
4. An inability to meet peak demand due to inadequate reservoir storage and small distribution mains.

Upper Hale Water System improvements, involving TSEP funds, include:

1. A 200,000 gallon reservoir;
2. Approximately 5,500 LF of new or replaced water mains;
3. Six fire hydrants; and
4. A pumping station.

Achievable project benefits are:

1. Providing project area residents with fire protection;
2. Meeting State and Insurance Services Offices (ISO) standards; and
3. Allowing future development for approximately 120 housing units. The system serves 27 housing units now.

On October 15, 1990 the City Commission authorized Morrison-Maierle/CSSA to design the project conforming to the Hale Reservoir Task Force recommendations which included seven alternative reservoir sites. Subsequently one site was chosen. The project was designed and went to bid; however, bids were rejected due to a lack of adequate funding by the City.

PROJECT NO. 20

APPLICANT: City of Livingston

PROJECT NAME: East End Storm Sewer Project

AMOUNT OF TSEP REQUEST: $ 100,000 Grant

OTHER FUNDING SOURCES: $ 100,000 City of Livingston

TOTAL PROJECT COST: $ 200,000

TSEP FUNDING RECOMMENDED: $ 100,000 Grant

PROJECT SUMMARY:

The current storm drain system on the east side of town is extremely old and is about to collapse. This storm drain services about 27 blocks of the City and an estimated 540 households. The storm drain on H Street is the only drain for a six block area. It often overflows because it is of insufficient size and capacity to service the area. This particular pipe section has already collapsed several times.

The storm drain on K Street runs through certain properties and then goes down a sidewalk. The sidewalk is collapsing and falling in all along this area. In other areas the storm water runs under alley approaches, causing the approaches to settle or collapse.

Because of the extent of this project, the City is proposing a phased approach. In phase one, Livingston is seeking a $100,000.00 matching grant through the Treasure State Endowment Program, for a total of $200,000.00 for the project. The City's share of this project would be taken from the City's Sewer Enterprise Fund Cash Reserves. Once phase one is accomplished, the City would begin working on the second phase, which primarily involves the adding of new stormwater drain inlets.

PROJECT NO. 21

APPLICANT: Toole County

PROJECT NAME: Sweetgrass Water Project

AMOUNT OF TSEP REQUEST:	$ 366,040	Grant
OTHER FUNDING SOURCES:		None
TOTAL PROJECT COST:	$ 366,040	
TSEP FUNDING RECOMMENDED:	$ 25,000	Engineering Loan

PROJECT SUMMARY:

The water and sewer system for the unincorporated community of Sweetgrass was installed in 1964. This system did not provide for expansion linked to the potential development of industry, jobs, and tax base linked to the Canadian GST tax. During the calendar year 1991, over one million (1,000,000) people crossed over into the United States at the Sweetgrass Port of Entry.

At the present time there are areas in the community that do not have consistent water supply, due to lack of pressure. This fact poses a serious fire hazard. An engineering report has documented lack of storage, lack of pressure, dead ends, and improper looping. The community's water supply from Coutts, Alberta, Canada, is dependent upon a three inch metering valve delivering water to Sweetgrass. Any great demand in Coutts adversely affects Sweetgrass water users.

There are presently two Government meat inspection plants checking Canadian meat entering the United States that don't always have adequate water. A truck stop complete with convenience store, restaurant and hotel that would employ 20 to 25 full time employees is a potential development, but will not be built unless adequate water and sewer can be supplied.

The installation of a 150,000 gallon water storage tank plus a pumping station, correction of the dead end water lines, and installation of proper looping would supply adequate water supply and pressure to satisfy health and safety requirements.

PROJECT NO. 22

APPLICANT: Town of Froid

PROJECT NAME: Froid Water Treatment Plant

AMOUNT OF TSEP REQUEST:	$ 117,000	Grant
OTHER FUNDING SOURCES:	$ 25,000	Town of Froid
	$ 317,130	FmHA Grant
	$ 117,470	FmHA Loan
TOTAL PROJECT COST:	$ 576,600	
TSEP FUNDING RECOMMENDED:	$ 117,000	Grant

PROJECT SUMMARY:

The Town of Froid has experienced substandard water for many years. The project would eliminate primary contaminants in the town's wells including nitrate and secondary contaminants including iron, manganese, sulfate, and sodium by constructing a new water treatment plant.

PROJECT NO. 23

APPLICANT: Town of Ennis

PROJECT NAME: Town of Ennis Water Storage and Distribution System Project

AMOUNT OF TSEP REQUEST: $ 400,000 Grant

OTHER FUNDING SOURCES: $ 660,000 DNRC Loan

TOTAL PROJECT COST: $1,060,000

TSEP FUNDING RECOMMENDED: $ 100,000 Grant

PROJECT SUMMARY:

The proposed project consists of improvements to the Town of Ennis' water storage and distribution system. These improvements are needed to resolve a public safety hazard. The existing water system does not provide adequate capacity and pressure for fire fighting (fire flow). The current water system does not meet fire flow standards, such as the Insurance Services Organization (ISO) standard.

A 300,000 gallon reservoir will be constructed southwest of town. A twelve-inch transmission main will connect the new reservoir to the existing distribution system. The new tank will serve a dual purpose: 1) It will increase the available storage from 250,000 to 500,000 gallons thus enabling the community to fight much larger fires; 2) The reservoir will be placed at an elevation such that pressures in the southwest portion of Town can be increased to an acceptable level. Construction of the new tank will result in the need for a second pressure zone. To supply and pressurize this zone, a booster pump station will be constructed.

Distribution system improvements will be made to provide a core that will satisfy fire fighting supply needs to all areas, in particular, to the commercial district. Several loops will also be completed that not only will increase pressures, but also will eliminate the potential for stagnant and/or contaminated water. New fire hydrants will be installed to replace those don't function properly. New gate valves will be installed to replace inoperable valves and to provide for more efficient system operation.

PROJECT NO. 24

APPLICANT: Town of Chester

PROJECT NAME: Extension of Water and Sewer Services to Taylor Addition.

AMOUNT OF TSEP REQUEST:	$ 196,235	Grant
OTHER FUNDING SOURCES:	$ 59,465	SID Assessment
	$ 136,770	(Unclear whether this would be cash or in-kind donated services.)
TOTAL PROJECT COST:	$ 392,470	
TSEP FUNDING RECOMMENDED:		No TSEP funds recommended.

PROJECT SUMMARY:

The Town of Chester is facing a housing shortage. Very few single family homes are available for sale and rental vacancy rates are extremely low. The Taylor Addition, located in the northeast corner of the community, does not have complete access to central water or sewer lines. Only four households currently live in this addition, due to the fact that public water is available only on the south side and that sewer service is non-existent.

Property owners in the Taylor Addition have expressed an interest in extending water and sewer service in order to facilitate new housing development. If water and sewer lines would be constructed, the Town estimates that about 10 - 15 new households could be established in the area within three years after the project is completed.

The cost of this project would not be affordable if it was financed 100 percent by SID assessments.

Town policy requires that the cost of water and sewer extension be borne by the property owner. The Town Council has determined, however, that the proposed project will be an appropriate solution to the community's housing shortage, which is threatening future economic growth. Chester has difficulty providing adequate housing for professionals employed at the local hospital and the rest home. The growth of Weise Manufacturing, which has operated the former Liberty shovel plant for the last year, has further strained the Town's housing stock. These considerations are the basic justification for seeking assistance from the State's Treasure State Endowment Program.

PROJECT NO. 25

APPLICANT: Gallatin County Commission for:
Rae Subdivision County Water & Sewer
District #313.

PROJECT NAME: Installation of Water Meters

AMOUNT OF TSEP REQUEST: $ 49,870.22 Grant

OTHER FUNDING SOURCES: $ 6,278.12 Rae District
$ 7,756.77 King Arthur Park owner
$ 2,585.59 Subdivision Residents

TOTAL PROJECT COST: $ 66,490.70

TSEP FUNDING RECOMMENDED: $ 33,245.00 Grant

PROJECT SUMMARY:

The installation of water meters was identified as a significant district need when an engineering firm performed an inventory of the district's physical condition and recommended the installation of water meters and a water rate structure based on measured consumption.

The district has traditionally used a property tax levy to collect debt service funds. However, the Montana Supreme Court issued a decision in late 1991 that effectively prohibited this practice. As a result, the district was forced to use funds already on deposit in a bond reserve account to make the July, 1992, bond payment. These factors contributed heavily to the failure of the district's first bond refinancing efforts.

As a result of the Supreme Court decision, water user fees must be more than doubled in order to fund bond payments, converting from a property tax levy system of support to a user fee system. However, the change from levy to user fee does not represent an overall increase in revenues to the district. The district implemented a 30% O&M increase last year which engendered much public interest and controversy. The changes have been discussed at numerous regular and special meetings. District residents are now demanding a system based on fairness of cost burden. The installation of water meters would address the demand for fairness and achieve a critical step in the District's efforts to re-establish a sound financial base and be able to move forward to address other system deficiencies in the future.

PROJECT NO. 26

APPLICANT: Yellowstone County

PROJECT NAME: Shepherd Area Proposed Water & Sewer District

AMOUNT OF TSEP REQUEST:	$ 100,000	Grant
OTHER FUNDING SOURCES:	$ 8,988	Yellowstone Conservation District
	$ 8,284	HKM Associates
	$ 938	Ward Swanser
TOTAL PROJECT COST:	$ 118,210	
TSEP FUNDING RECOMMENDED:	$ 85,000	Deferred Loan for Engineering

PROJECT SUMMARY:

The project includes preparation of the preliminary engineering plan and cost estimates for the construction of a water distribution system for the proposed Shepherd area Water & Sewer District for rural domestic and other uses. The principal source of water would be the Billings Bench Water Association Canal, treated, and distributed to rural residents in the Shepherd area. Approximately 1,500 people reside within this fast growing area. Initial conceptual designs are based on a future population of 3,500 people with an average use of 150 gallons per capita per day.

Water quality is the area's principal problem. The majority of the population depend on wells. Several users are forced to haul water from treatment plants in the area. It is anticipated that as the population grows, water quality will degrade. Health hazards will be a concern. The public school system depends on a number of wells for its supply, one of which has been closed by DHES because of potential health hazards from continued use of the well. The school is presently required to test five wells monthly. New 1993 regulations will include more testing and safer guidelines to ensure safe water for the school. The school will be chlorinating its water supply by 1993 school year.

Adequate flows for fire fighting are limited, increasing insurance rates in the area.

PROJECT NO. 27

APPLICANT: Town of Dutton

PROJECT NAME: Water System Upgrade

AMOUNT OF TSEP REQUEST: $ 68,700 Grant

OTHER FUNDING SOURCES: $ 50,000 DNRC Grant

TOTAL PROJECT COST: $ 118,700

TSEP FUNDING RECOMMENDED: $ 50,000 Grant

PROJECT SUMMARY:

The project is the third of three phases of construction to improve the town's water system. The first phase included installing 1,400 feet of rip rap of the Teton River riverbank to protect the town's sole water supply. The second phase of the project included upgrading the town's water storage facilities. This consisted of construction of a new 500,000 gallon water tank and new transmission line to the distribution system. The third phase of the project would upgrade of the existing supply system and transmission main. These improvements include: installation of reliable transmission line, installation of a gas chlorination system, and improvements to the pumping station's valve work and piping. The reliability of the system will improve with a new telemetry system, replacement of the bad section of pipe, and improvement of the well house piping. The system will also provide adequate water storage for fighting fires and ammonia spills.

PROJECT NO. 28

APPLICANT: Sanders County

PROJECT NAME: Noxon Bridge

AMOUNT OF TSEP REQUEST: $ 2,156,000 Grant

OTHER FUNDING SOURCES: None

TOTAL PROJECT COST: $ 2,156,000

TSEP FUNDING RECOMMENDED: No TSEP funding recommended.

PROJECT SUMMARY:

The 600 feet long Noxon Bridge spans the Cabinet Gorge Reservoir, one mile northeast of Noxon on the Heron Road. The road is the main access to Noxon and the south side of the Cabinet Gorge Reservoir. Currently, a principal use is for timber hauling.

The County proposes to replace the 16-ton capacity Heron Bridge with a completely new bridge to meet current safety standards.

PROJECT NO. 29

APPLICANT: Toole County

PROJECT NAME: Sweetgrass Sewer Project

AMOUNT OF TSEP REQUEST: $ 162,925 Grant

OTHER FUNDING SOURCES: None

TOTAL PROJECT COST: $ 162,925

TSEP FUNDING RECOMMENDED: $ 25,000 Deferred Loan for Engineering

PROJECT SUMMARY:

According to a 1991 engineering evaluation of the water and sewer systems, the sewer collection system for Sweetgrass was constructed in 1964 along with the water mains and treatment lagoon. The sewage treatment system consists of a single-cell lagoon constructed in 1964. The lagoon is intended to be non-discharging since no discharge permit has been issued. The current surface area of the single lagoon is insufficient to assure evaporation of the amount of flow entering the lagoon. The system also fails to meet current regulations requiring at least two cells.

The proposed project would install a second sewage lagoon for the unincorporated community of Sweetgrass in Toole County. The lagoon would be 250' x 250' and hold approximately 1.5 million gallons.

PROJECT NO. 30

APPLICANT: Custer County

PROJECT NAME: Custer County Recycling Project

AMOUNT OF TSEP REQUEST: $ 18,900 Grant

OTHER FUNDING SOURCES: $ 2,000 Custer County Landfill Board

TOTAL PROJECT COST: $ 20,900 (Excluding in-kind services)

TSEP FUNDING RECOMMENDED: No TSEP funding is recommended.

PROJECT SUMMARY:

The primary purpose of this project is the reduction in landfill use in Custer County and the surrounding communities. Custer County would like to develop a comprehensive recycling program that can reduce the flow of recyclable material into the county landfill.

The County is requesting assistance for the purchase of some of the machinery necessary to develop the program. The actual recycling project will be operated by Eastern Montana Industries, a non-profit corporation providing services to the disabled. This corporation has provided recycling services to the Miles City area for over 15 years, but is in need of up-grading its equipment to meet the demands of recycling additional waste products. Equipment requests are for a larger baler and a used forklift.

PROJECT NO. 31

APPLICANT: Madison County

PROJECT NAME: Integrated Waste Program (Recycling) for Madison County

AMOUNT OF TSEP REQUEST:	$ 66,850	Grant
OTHER FUNDING SOURCES:	$ 12,250	Community Support (donations & other)
TOTAL PROJECT COST:	$ 79,100	
TSEP FUNDING RECOMMENDED:		No TSEP funding recommended.

PROJECT SUMMARY:

This project is to improve a private solid waste recycling program. The project would reduce the use of the County landfill and the negative impact on natural resources.

Trash-In-Transit Recycling, Inc., a private recycling group, organized in 1990 after positive response to an Earth Day Trash-for-Trees exchange. In 1991, the group processed 67,000 pounds of recyclables, saving 221 cubic yards of waste that would have gone to the landfill. The Recycle Center is used by 100 families. Organizations and school classes donate their time to sort and load the materials.

This project would be overseen by Trash-In-Transit, Inc., a private group. The group would educate business managers, school students and the general public. The education program would emphasize the six "R's": Reduce, Reuse, Repair, Reject, Respond, and Recycle.

TSEP funds would be used as follows. To handle increased recycling volume, a baler, forklift, pallet jack, chipper and 2 covered trailers would be purchased. Also, the existing recycling building would be expanded. A recycling coordinator would be hired to organize education, volunteers, marketing and promotion. A center manager would be hired to operate the equipment.

PROJECT NO. 32

APPLICANT: Sanders County

PROJECT NAME: Heron Bridge

AMOUNT OF TSEP REQUEST: $ 2,735,425 Grant

OTHER FUNDING SOURCES: None

TOTAL PROJECT COST: $ 2,735,425

TSEP FUNDING RECOMMENDED: No TSEP funding recommended.

PROJECT SUMMARY:

Heron is an unincorporated community in Sanders County. It has a population of about 607 persons. The 695 feet long Heron Bridge spans the Cabinet Gorge Reservoir, two miles northwest of Heron on the Heron Road. The road is the main access to the community of Heron. Currently, the bridge is heavily used by empty logging trucks which need to access timberlands south of the reservoir. Heron residents use this bridge on a regular basis.

County officials suggest that the current 16-ton capacity Heron Bridge needs to be replaced. A new bridge would provide the following benefits:

1. A new bridge that would meet current safety standards;

2. The possibility of obtaining funding from sources other than TSEP;

3. The possibility of attracting additional business or tourists to the region, as well as supporting expansion of existing businesses;

4. Enhancement of existing traffic flow and visibility (currently restricted) from single-lane to two-lane for all vehicles;

5. The provision of a bridge (rated H-20 tons capacity) to allow a means of transportation not currently available for loaded logging trucks, including the economic and job opportunities commensurate with this undertaking.

APPENDIX F

RECOMMENDED PROJECT PRIORITIES AND FUNDING AMOUNTS FOR THE 1993 TREASURE STATE ENDOWMENT PROGRAM

RECOMMENDED PROJECT PRIORITIES AND FUNDING FOR THE 1993 TREASURE STATE ENDOWMENT PROGRAM

APPLICANT	PRIORITY SCORE	AMOUNT REQUESTED	AMOUNT RECOMMENDED
1. BUTTE-SILVER BOW (WATER)	4075	$ 300,000	$ 300,000
2. ANACONDA/DEER LODGE (WATER)	3900	$ 350,000	$ 350,000
3. CARBON CO. (BRIDGE)	3325	$ 25,000	$ 25,000
4. NEIHART (WATER)	3275	$ 616,213	$ 544,673
5. MISSOULA CO./SUNSET WEST (WATER)	3100	$ 154,107	$ 154,107
6. YELLOWSTONE CO. (BRIDGE)	3075	$ 95,500	$ 95,500
7. CIRCLE (WATER)	3000	$ 370,000	$ 370,000
8. CIRCLE (ENG. LOAN)	3000	$ 20,000	$ 0
9. STILLWATER CO./REEDPOINT (SEWER)	3000	$ 250,000	$ 200,000
10. BEAVERHEAD CO. (SLD WASTE)	2900	$ 160,000	$ 160,000
11. RONAN (SEWER)	2825	$ 309,107	$ 100,000
12. SHELBY (SD/SEWER)	2825	$ 732,000	$ 366,000
13. WHEATLAND CO. (ENG. LOAN)	2775	$ 33,000	$ 33,000
14. HARLEM (WATER)	2750	$ 217,300	$ 217,300
15. YELLOWSTONE CO./HUNTLEY (WATER)	2600	$ 100,000	$ 100,000
16. RICHLAND CO. (SLD WASTE)	2500	$ 570,500	$ 285,000
17. WOLF POINT (SEWER)	2300	$ 50,000	$ 0
18. LEWISTOWN (STR. DRAIN)	2075	$ 60,000	$ 60,000
19. HELENA (WATER)	1925	$ 677,265	$ 338,633
20. LIVINGSTON (STR. DRAIN)	1775	$ 100,000	$ 100,000
21. TOOLE CO./SWEETGRASS (ENG. LOAN) (W)	1650	$ 366,040	$ 25,000
22. FROID (WATER)	1625	$ 117,000	$ 117,000
23. ENNIS (WATER)	1525	$ 400,000	$ 100,000
24. CHESTER (WATER)	1450	$ 196,235	$ 0
25. GALLATIN CO./RAE SUBDIV. (WATER)	1450	$ 49,870	$ 33,245
26. YELLOWSTONE CO./SHEPHARD (EN LOAN)	1425	$ 100,000	$ 85,000
27. DUTTON (WATER)	1325	$ 68,780	$ 50,000
28. SANDERS CO./NOXON (BRIDGE)	1300	$ 2,156,000	$ 0
29. TOOLE CO./SWEETGRASS (ENG. LOAN) (S)	1250	$ 162,925	$ 25,000
30. CUSTER CO. (SLD WASTE)	1075	$ 18,900	$ 0
31. MADISON CO. (SLD WASTE)	900	$ 66,850	$ 0
32. SANDERS CO./HERON (BRIDGE)	900	$ 2,735,000	$ 0
TOTAL		$ 11,627,592	$ 4,234,458

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NAME	#1 PUBLIC HEALTH SAFETY	#2 STANDARDS	#3 OTHER SOURCES	#4 LONG TERM JOBS	#5 BUSINESS EXPANSION	#6 BENEFIT TO DOLLARS	#7 GREATER FINANCIAL NEED	#8 TAX BASE	#9 LOCAL SUPPORT	TOTAL
MAXIMUM POSSIBLE SCORE	900	800	700	600	500	400	300	200	100	4500
ANACONDA-DEER LODGE	900	800	700	450	375	300	150	150	75	3900
BEAVERHEAD COUNTY	900	800	350	150	125	300	150	100	25	2900
BUTTE-SILVER BOW	900	800	700	450	375	400	150	200	100	4075
CARBON COUNTY	900	600	525	300	125	400	225	150	100	3325
CHESTER	0	0	350	300	250	100	300	100	50	1450
CIRCLE (E/W)	900	800	350	150	125	300	225	100	50	3000
CIRCLE	900	800	350	150	125	300	225	100	50	3000
CUSTER COUNTY	0	200	175	150	125	200	75	100	50	1075
DUTTON	225	0	350	150	125	200	150	100	25	1325
ENNIS	225	0	350	300	125	200	150	100	75	1525
FROID	0	0	700	150	125	300	150	100	100	1625
GALLATIN CO-RAE SUB.	0	0	350	150	250	300	225	100	75	1450
HARLEM	450	600	350	300	250	300	300	150	50	2750
HELENA	450	400	350	150	125	100	150	100	100	1925
LEWISTOWN	675	0	525	150	125	300	150	100	50	2075

LIVINGSTON	675	0	350	150	125	200	150	100	25	1775
MADISON COUNTY	0	200	175	150	125	100	75	50	25	900
MISSOULA CO-SUNSET WEST	900	800	350	300	125	200	225	150	50	3100
NEIHART	900	800	350	450	250	100	300	100	25	3275
RICHLAND COUNTY	900	600	350	150	125	200	75	50	50	2500
RONAN	675	400	350	450	375	200	150	150	75	2825
SANDERS CO-HERON	225	200	0	150	125	0	75	100	25	900
SANDERS CO-NOXON	450	400	0	150	125	0	75	100	0	1300
SHELBY	675	400	350	450	375	200	150	150	75	2825
STILLWATER CO-REED POINT	675	400	700	300	125	300	300	100	100	3000
TOOLE CO-SWEETGRASS (W)	450	200	0	300	250	100	225	100	25	1650
TOOLE CO-SWEETGRASS (S)	225	200	0	300	250	100	75	100	0	1250
WHEATLAND COUNTY	900	600	350	150	125	300	225	100	25	2775
WOLF POINT	450	400	700	150	250	100	75	100	75	2300
YELLOWSTONE CO (BRIDGE)	675	400	525	450	250	400	150	150	75	3075
YELLOWSTONE CO-HUNTLEY	675	600	350	150	125	300	225	100	75	2600
YELLOWSTONE CO-SHEPARD	225	200	175	300	125	200	75	100	25	1425

TREASURE STATE ENDOWMENT FUNDING RECOMMENDATIONS
DOC BRIEF RATIONALE FOR EACH PROJECT
3/1/93

INTRODUCTION

Organization

TSEP projects (applications) are listed in alphabetical order. They are not listed according to rank order (by priority score).

Financial Affordability Ranking

In this report, several references are made in regard to the financial "affordability ranking" of the applicants for TSEP funds. The affordability ranking is based upon a financial analysis defining the relative ability of community residents to pay the costs of new additional public works improvements. A high affordability ranking indicates that a community is carrying a higher cost burden and, thus, the community has a greater need for TSEP funding assistance. For example, a community with a rank of "1" or "2" would be considered to have a high rank. This means the community has a high need for financial assistance because the residents are already carrying a high financial burden of taxes and fees relative to their level of income.

The affordability rank is a summation of a household's total obligation for local government user fees and tax payments divided by the community's median household income. For this analysis, local government user fees include annual water, sewer and solid waste charges. The tax burden is determined by multiplying the total mill levy (which includes municipal or county mills plus education mills) in the county or municipal taxing jurisdiction by the average value of a residence in the jurisdiction. The fees and tax burden were added together and divided by the median household income for the municipality, county, or county census division for unincorporated areas. In order to make like comparisons, municipalities were compared and ranked against each other. The same was done with counties and county water/sewer districts.

Community Water and Sewer Rates in Comparison to Median Household Income (MHI)

Several references are made in regard to a community's monthly water or sewer rate in comparison to the community's median household income (MHI). According to the 1990 Census, the median household income for all Montana households

statewide was $22,988 per year.

It is generally accepted that a community can afford a monthly water or sewer rate that is at least 1 percent of the community's median household income, adjusted monthly. For example, in a hypothetical community, if the water rate was $28 per month and the community's median household income was $22,988, the $28 monthly rate per household would exceed the monthly target affordable rate of $19.16. (Math: $22,988 divided by 12 months equals $1,916; 1 percent of $1,916 equals $19.16, the monthly target affordable rate.) Thus, this community's rate ($28/month) far exceeds what is considered to be reasonably affordable ($19.16/month). This community would be bearing a significant financial burden and has a greater financial need for state Treasure State Endowment Program (TSEP) funding assistance.

Some financial analysts, including officials from the U.S. Rural Development Administration, believe that a community water or sewer rate that is equivalent to 1.5% of the median household income (MHI) is a more appropriate financial indicator given current construction costs in Montana. Thus, the Department of Commerce analyzed each community's rates using a range between 1% to 1.5% MHI as a general guide to determine a reasonable local financial effort.

Debt per Household

The debt per household is a financial indicator which is used in this report to compare relative financial need and capacity to incur additional debt. Private bond underwriters consider debt per household from $1,500 to $2,000 to be a significant financial burden. The debt to household ratio is an industry norm used by bond underwriters to evaluate the capacity of the local government to incur additional bonded indebtedness.

The debt to household ratio is calculated by dividing the local government's total debt by the number of households to benefit from the proposed project. Both current debt per household and proposed debt per household with the TSEP project have been calculated for each applicant by the Department of Commerce.

Please refer to Appendix G of the TSEP legislative report for a complete explanation of the concepts used in analyzing financial need for the TSEP applications.

DOC RECOMMENDATIONS FOR EACH PROJECT - BRIEF RATIONALE

1. **Anaconda-Deer Lodge (Water System Construction)**
   Requested - $350,000 grant
   Recommendation - $350,000 grant

   a. The Applicant's proposed rates are 1.48 times the 1% MHI.

   b. The Applicant's proposed debt is $1,649 per household. Private bond underwriters consider debt per household of $1,500 to $2,000 to be a significant financial burden.

   c. The Applicant would contribute 92% local matching funds.

   d. The Applicant's TSEP request is modest ($350,000), in comparison to the total cost of the project ($4,425,000).

   e. The Applicant's situation poses a serious health threat, according to the Montana Department of Health Water Quality Bureau (DHES/WQB).

2. **Beaverhead County (Solid Waste System Construction)**
   Requested - $160,000 grant
   Recommendation - $160,000 grant

   a. The Applicant is ranked high on the affordability index. (#2 out of 8 counties). This indicates that local residents are already carrying a high financial burden relative to their income level.

   b. The Applicant's current rates ($6.00 per month per household) are over twice the amount of the other TSEP solid waste project (Richland County application). For comparison purposes, Richland County's current rates are $2.92 per month per household. Also, Beaverhead County's MHI ($20,925) is lower than Richland County's MHI ($23,264).

   c. The existing landfill site is considered a "significant threat to public health" by The Montana Department of Health Solid and Hazardous Waste Bureau (DHES/SHWB).

   d. According to the DHES/SHWB: "In August, 1992, Beaverhead County's solid waste disposal fees were doubled, from $36 a year per household to $72. However, the increased fees are insufficient to cover the compounded costs of meeting operational and regulatory compliance needs at the new Beaverhead County landfill, in addition to attempting to meet closure cost for the old landfill site. Beaverhead County is currently bearing the maximum financial burden that it is able, and does not believe a further increase in taxes can or will be tolerated."

3. **Butte-Silver Bow (Water System Construction)**
Requested - $300,000 grant
Recommendation - $300,000 grant

a. The Applicant's proposed rates, even with TSEP funds, are extremely high (2.14 times the 1% MHI). This is over the 1.5 MHI financial indicator.

b. The Applicant's proposed debt per household is over $2,000. Private bond underwriters consider debt per household of $1,500 to $2,000 to be a significant financial burden.

c. This is a high health threat situation. There is a health advisory in place, a consent degree (compliance required) has been signed, and a building moratorium in place (Applicant can not hook on new water users or extend water lines). This is a high priority need according to DHES/WQB and EPA.

d. Extremely high leverage (99% local match money).

e. The Applicant's TSEP request is modest ($300,000), in comparison to the amount of local funds contributed ($22,915,000).

f. Applicant stated that state participation in this project would enhance the Applicant's ability to sell the bonds on the private market.

4. **Carbon County (Bridge Construction)**
Request - $25,000 grant
Recommendation - $25,000 grant

a. The Applicant is providing 79% local match. This represents high leverage of TSEP funds.

b. The Applicant is showing high local financial effort - 50% of current bridge revenues are pledged to this project.

c. This is a small TSEP request ($25,000) relative to overall project cost ($120,000).

d. The Applicant has a high affordability rank. Applicant is ranked #1 out of 8 counties. This indicates that local residents are already carrying a high financial burden relative to their income level.

e. The Montana Department of Transportation Bridge Bureau (MDOT/BB) staff rated the current bridge as an urgent and serious safety problem which violates bridge standards.

5. **Chester - Taylor Addition (Water and Sewer Lines Extension)**
Request - $196,235
Recommendation - No funding

a. Currently, there are only 4 occupied houses in the project area. The new water and sewer lines which would be extended into the Taylor Addition would only be needed if 15 to 20 new houses are built. There is no evidence (such as letters from lot owners, potential home buyers, contractors or bankers) that these houses would be built.

b. According to the DHES/WQB, this project does not resolve a health threat situation nor does it deal with a situation that needs to be corrected in order to bring it into compliance with state or federal regulations.

c. The Applicant proposes to provide two different sources of funds to meet the 50% local matching funds required under TSEP guidelines. The application is unclear on one source of these local matching funds. If these funds are donated services (e.g., If the Town staff does grading and excavation work), this would be an ineligible match and the Applicant does not meet the minimum 50% local match requirement. If the Applicant's match is in the form of cash, loan, or grant from another source this would not be a problem.

d. The TSEP funds invested would exceed $5,000 per household. This is not in compliance with TSEP guidelines which require a health threat situation to receive a waiver of the $5,000 per household limit. In various parts of the application, different numbers were used to project the number of potential houses to be built (number of households). The numbers and the cost per household of TSEP funds that would be expended are listed below:
* 4 households = $49,059 TSEP/household ($196,000 divided by 4)
* 10 households = $19,623 TSEP/household ($196,000 divided by 10)
* 15 households = $13,082 TSEP/household ($196,000 divided by 15)
* 20 households = $9,812 TSEP/household ($196,000 divided by 20)

e. Although a majority property owner has submitted a letter in support of the proposed SID, there is no information that other property owners would support the SID so that it could be formed and the Applicant could provide this part of the required local match.

6. **Circle (Water System Construction)**
Request - $370,000 grant
Recommendation - $370,000 grant

a. The Applicant has high water rates. The proposed water rate, even with TSEP funds included, would be 2.17 times the 1% MHI financial indicator.

b. This is a high health threat situation, according to DHES/WQB.

c. This Applicant has a high affordability rank. This applicant is ranked #4 out of 15 municipalities.

d. The combined proposed water and sewer rates are high (2.56 times the 1% MHI financial indicator).

7. **Circle (Water System Engineering Loan)**
Request - $20,000 loan
Recommendation - No Funding. (See Circle water system construction project above.)

a. According to the DHES/WQB, this project is ready to move to final engineering and construction. (Note: See #6, Circle Water System Construction Project.)

8. **Custer County (Solid Waste Recycling Program)**
Request: - $18,900 grant
Recommendation - No Funding

a. It appears that the Solid Waste District could reasonably fund the project without TSEP. Current District rates are only $1.83 per month per household. This is comparatively low. The total project cost is only $18,900.

b. The Applicant's match does not meet the 50% minimum match requirement. The Applicant would only provide $2,000 out of a $18,900 total project (about 10% local match).

c. DNRC did not recommend funding of this application under the DNRC Water Development Program, due to concerns with the technical and financial feasibility of this project.

d. A July, 1992 DHES review of the County's DNRC application stated: "Not only is the project economically feasible, sufficient revenue should be available to purchase the desired equipment in two and a half years without the DNRC grant on standard bank terms."

9. **Dutton (Water System Construction)**
Request - $68,780 grant
Recommendation - $50,000 grant (reduced amount)

Rationale to reduce the amount:

a. The Applicant did not propose sufficient local matching funds equal to the total $68,780 TSEP grant request. The Applicant proposes that the TSEP grant would be matched by a $50,000 DNRC grant (a 42% local

match).

b. Under TSEP guidelines, in order to be eligible for waiver of the 50% match requirement an urgent health threat must exist. According to the DHES/WQB this is not a serious and urgent health threat situation.

Rationale to provide TSEP funds:

a. The Applicant has high rates compared to 1% MHI financial indicator. Rates without TSEP would be 2.30 times the 1% MHI, or $40 per month per household. This is over the 1.5% MHI financial indicator. Even with TSEP funds included, the rates would still be very high. They would be 2.11 times the 1% MHI rate, or $36.50 per month per household. Even with TSEP, the rates would be over the 1.5% MHI financial indicator.

b. Only a small amount of funds is needed to complete the third and final phase of a long range water system improvement plan.

c. The Applicant has high existing debt per household ($1,918/household). Private bond underwriters consider debt per household from $1,500 to $2,000 to be a significant financial burden.

10. **Ennis (Water System Construction)**
Request - $400,000 grant
Recommendation - $100,000 grant (reduced to 25% of request)

Rationale to reduce the amount:

a. The Applicant's rates would be less than the 1% MHI financial indicator.

b. If the Applicant were to receive the total amount of TSEP funds requested, the Applicant's already low rates would drop, due to reduced operation and maintenance costs. Thus, it appears that the Applicant could pay more in local funds to support the project than is proposed.

c. Applicant's MHI is very high ($27,417) compared to the state average MHI ($22,988).

Rationale to provide TSEP funds:

a. The Applicant would have a high proposed debt per household ($2,339 per household). Private bond underwriters consider a debt per household of $1,500 to $2,000 to be a significant financial burden.

b. If the Applicant receives a $100,000 grant they would have to borrow another $300,000. At 6.5% interest over 20 years, the rates would increase to approximately $23.93 per month per household which is 1.05 times the 1% MHI rate. This would still be below the 1.5% MHI financial indicator of $34.27 per month per household. The debt service on the $300,000 to be borrowed would be approximately $8.93 per

month per household.

11. **Froid (Water System Construction)**
Request - $117,000 grant
Recommendation - $117,000 grant

a. The Applicant is providing 80% local match. Compared to other applicants, this is a high amount.

b. The Applicant has high rates. With TSEP funds included, the proposed rates would be $18.40 per month per household, or 1.48 times 1% the MHI. Without TSEP funds included the rates would be $24.67 per month per household, or 1.99 times the 1% MHI financial indicator. This rate would be well over the 1.5% MHI financial indicator, which is $18.58 per month per household.

c. The Applicant's MHI ($14,861) is one of the lowest of all the applications.

12. **Gallatin County - Rae Subdivision (Water System Meters)**
Request - $49,870
Recommendation - $33,245 (Reduce amount to 50% of project. Applicant requested a 75% hardship grant.)

Rationale to reduce the amount:

a. The Applicant does not qualify for 75% hardship grant, because according to DHES/WQB, there is no immediate health threat.

Rationale to provide TSEP funds:

a. The Applicant's current debt per household is very high ($2,580 per household). Private bond underwriters consider debt per household from $1,500 to $2,000 to be a significant financial burden.

b. Funding this project will help the Applicant to purchase water meters to set up a metered water rate, thus, allowing the Applicant to establish a stable and equitable user charge system so that additional (future) repairs to the water system may be made.

c. The Applicant's proposed rates without TSEP funds included would be 3.35 times the 1% MHI, or $61.30 per month per household. This is over twice the 1.5 MHI financial indicator, which is $27.31 per month per household.

13. **Harlem (Water System Construction)**
Request - $217,300 grant
Recommendation - $217,300 grant

a. The Applicant has the greatest overall financial need of all TSEP applicants. The Applicant's affordability rank is #1 out of 15 municipalities. Also, the Applicant is ranked #1 out of 29 applicants. This indicates that local residents are already carrying a high financial burden relative to their income level.

b. The Applicant has very high rates. Rates without TSEP would be $36.51 per month per household, or 2.31 times the 1% MHI. Even with TSEP funds, the rates would be $30.26 per month per household, or 1.91 times 1% MHI. These rates are well over the 1.5% MHI financial indicator.

c. The Applicant's proposed combined water and sewer rates are extremely high (over 4 times the 1% MHI financial indicator). This would be one of the highest combined rates of all applicants.

d. The Applicant's existing debt is $1,652 per household. Private bond underwriters consider debt per household from $1,500 to $2,000 to be a significant financial burden.

14. **Helena (Water System Construction)**
Request - $677,265
Recommendation - Reduce amount by 50% to $338,633

Rationale for reducing the amount:

a. The project would principally benefit 27 households.

b. With the full amount of TSEP funds requested, the applicant would not raise its rates to do this project (unlike most TSEP applicants). It appears that this Applicant could afford to raise its rates slightly to finance a larger portion of the project itself.

c. The Applicant's ranking on the statutory criterion # 6 (public benefit commensurate with the amount of TSEP funds requested) is below average. This is because the project primarily benefits 27 households (although there would be a secondary benefit to the entire community).

d. If the Applicant was given 50% ($338,633) of their TSEP grant request, the remainder of the total project cost ($338,633) could be financed at 6.5% over 20 years. This would result in an increase, for debt service, of approximately $.38 per month per household. The current rate would increase to $24.23 per month per household, which is 1.14 times the 1% MHI financial indicator (but is still less than the higher 1.5% MHI indicator).

Rationale to provide TSEP funds:

a. The Applicant has current water rates which exceed the 1% MHI financial indicator. The current rate is 1.12 times the 1% MHI.

b. The project would resolve an important public safety problem (significant potential for fire damage). Thus, this project is recommended for partial TSEP funding.

15. **Lewistown (Storm Drainage System Construction)**
Request - $60,000 grant
Recommendation - $60,000 grant

a. The Applicant's MHI ($19,780 per household per year) is below the state average MHI ($22,988 per household per year).

b. The Applicant's current combined water and sewer rate is 1.4 times the 1% MHI.

c. The Applicant's local match is 64%.

d. The DHES/WQB ranked this Applicant's situation as an above average health threat.

e. The property owners will carry a SID to help finance the project. The SID to be formed is in an area that is composed of 100 existing homes and businesses, in a 12 block area of the City.

16. **Livingston (Storm Drainage System Construction)**
Request - $100,000 grant
Recommendation - $100,000 grant

a. The existing sewer rate is 1.7 times the 1% MHI, or $28.70 per month per household. Their rates exceed the 1.5% MHI indicator, which is $25.26 per month per household.

b. Applicant's MHI ($20,208) is below the state average MHI ($22,988).

c. The proposed combined water and sewer rates are extremely high (over 4 times the 1% MHI financial indicator). The proposed combined rates would be $39.10 per month per household.

17. **Madison County (Solid Waste Recycling Equipment and Recycling Program)**
Request - $66,850 grant
Recommendation - No Funding

a. There are technical and financial feasibility problems involved in this application.

b. The DNRC staff also recommended no funding for this project under the Water Development Program due to technical and financial feasibility problems.

c. The Applicant did not provide enough documentation to justify need for

-TSEP. For example, there are no complete projections of recycling revenues with TSEP funds or without TSEP funds.

d. The private recycling effort is not integrated with the County government solid waste activities. No supporting letters were provided from the County solid waste district officials or from the County landfill operator.

e. The Applicant does not meet the 50% local matching funds requirement as stated in the TSEP guidelines. The Applicant is only providing 15% match ($12,250). The DNRC staff recommended against funding a DNRC grant for $66,850 for this project.

f. The County government is not putting any County funds into project. It appears the County could raise the monthly solid waste rate slightly to support the recycling project.

18. **Missoula County -- Sunset West (Water System Construction)**
Request - $154,107 grant
Recommendation - $154,107 grant

a. The Applicant would have very high proposed indebtedness ($4,189 per household). This is over twice the financial indicator ($1,500 to $2,000 per household) used by private bond underwriters to determine when the debt per household would be a significant financial burden. This is one of the highest proposed debt per household figures of all TSEP applicants.

b. The Applicant would have extremely high rates without TSEP. The rates would be $63.03 per month per household, or 3.23 times the 1% MHI. This is over twice the 1.5% MHI financial indicator.

c. This situation is a high health threat according to the DHES/WQB.

19. **Neihart (Water System Construction)**
Request - $616,213 grant and a $50,000 loan
Recommendation - $544,673 grant (Reduce amount by 12%. Provide TSEP funds in form of a 75% grant.)

Rationale for reducing the amount:

a. There is a higher proportion of relatively higher income seasonal and weekend residents that would be served by the improved water system. There are 29 permanent residents and 53 seasonal and weekend residents. It appears that the majority of the users would have the financial capacity to carry a slightly higher amount of debt than was proposed by the Applicant.

b. If the Applicant was given $71,558 less in TSEP funds than they requested, they would have to borrow $121,558 at 6.5% over 20

years (assumes applicant will borrow this amount from FmHA). This would result in an increase in debt service of approximately $15.88 per month per household. The rate would increase to approximately $35.88 per month per household. The new rate would be one and one-half times the 1.5% MHI financial indicator.

c.

Neihart Proposal		DOC Recommends
TSEP Grant	$616,231	$544,673
TSEP Loan	$ 50,000 (TSEP)	$121,558 (FmHA)
DNRC Grant	$ 50,000	$ 50,000
Town's Cash Reserve	$ 10,000	$ 10,000
TOTAL	$726,231	$726,231

Rationale to provide TSEP funds:

a. The Applicant would have extremely high proposed rates without TSEP. The rates would be $81.45 per month per household, or 5.21 times the 1% MHI. This would be almost 3.5 times the 1.5% MHI financial indicator.

b. This is a very high health threat situation according to DHES. The Town is under a court order to improve its water system. EPA and DHES are requiring the applicant to improve the system.

c. The Applicant's MHI ($18,750) for permanent residents is substantially below the state MHI average ($22,988).

d. A 75% hardship grant is recommended due to the health threat and extreme financial need. This is the maximum possible grant under the adpoted TSEP guidelines.

e. There is a real prospect of new economic development if the proposal is funded. Neihart is only 7 miles from Showdown Ski Area. The Town has a high potential for new commercial and residential development if the water problem can be resolved.

f. Without TSEP, the Applicant has no other realistic financial options. For example, the Applicant cannot qualify for a CDBG grant due to the higher income levels of seasonal and weekend residents.

g. This is a long standing public facility and public health problem. Other forms of financing have not proved feasible or affordable for this Applicant.

h. Without TSEP funds to help lower rates to a more affordable level, seasonal and weekend water users would likely oppose the water project, leaving the Town under a court order to improve the water system without the financial means to do so.

20. **Richland County (Solid Waste System Construction)**
Request - $570,500 grant
Recommendation - $285,000 grant (reduced amount by 50%)

Rationale for reducing the amount:

a. Compared to the Beaverhead County application (the other solid waste project), Richland County's rates are less than 50% as much. (For comparison purposes, Beaverhead County's current rates are $6.00 per month per household. Richland County's current rates are $2.92 per month per household.) Also, Beaverhead County's MHI ($20,925) is lower than Richland County's MHI ($23,264).

b. The Applicant has no current debt per household. Even with TSEP funds, the new total proposed debt per household is low ($76 per household). This is below average in financial need, compared to other applicants.

c. The difference between the rate with TSEP ($6.09 per month per household) and the rate without TSEP ($7.16 per month per household) is only $1.07. It appears that the Applicant could afford to pay for more of the cost of the project if the Applicant raised rates by only a modest amount.

Rationale to provide TSEP funds:

a. According to the DHES Solid and Hazardous Waste Bureau:

"It has been demonstrated that the existing Sidney Class II landfill is presently polluting the ground-water resources in the area. Therefore the county is at risk of losing the only major municipal solid waste landfill due to this violation..."

"Circumstances such as permanent groundwater pollution of area wells is likely to occur if leachate generation is allowed to continue at the existing landfill. The entire community would be affected in the near future if the existing landfill had to 1) close without an alternative site for waste disposal and 2) if tax-payers have to pay for extensive remediation activity."

b. While the DOC financial assessment concluded that the Applicant does have additional financial capacity to participate in the project, the Applicant's financial commitment is significant. The Applicant proposes to commit $269,691 in solid waste district reserves to the project and originally proposed to borrow $300,809 to provide the Applicant's local share of the project.

c. With a reduced TSEP grant, the Applicant would need to borrow $585,809 or $148 total per household within the landfill service area.

d. The project would appear to provide substantial benefit to the public commensurate with the amount of TSEP assistance recommended.

21. **Ronan (Sewage System Construction)**
Request - $309,107 grant
Recommendation - $100,000 grant (reduced amount)

Rationale for reducing the amount:

a. The Applicant's proposed rate with TSEP funds included is only .88 of 1% MHI. This is below the 1% MHI financial indicator.

b. The proposed rates with TSEP funds ($11.66 per month per household) is also well below the proposed rates of most other TSEP applicants.

c. If the Applicant was given 1/3 ($100,000) of their TSEP funding request, they could then finance the remaining $209,107 using an SRF loan. At a 4% interest rate over 20 years, this would result in a rate of $17.10 per month per household, or 1.29 times the 1% MHI financial indicator. It would still be below the 1.5% MHI financial indicator rate of $19.83. According to Department of Commerce calculations, this would increase the Applicant's proposed debt service per household per month from 0 to $5.40. (This figure includes the $219,108 SRF loan the Applicant already planned on borrowing. Thus, the new total of SRF funds that would be borrowed is $428,215)

Rationale to provide TSEP funds:

a. Ronan is a low income community. The MHI for Ronan is $15,868, compared to the state average MHI of $22,988.

b. Without TSEP assistance, the total debt per household would be $2,805. Private bond underwriters consider debt per household from $1,500 to $2,000 to be a significant financial burden.

22. **Sanders County - Heron (Bridge Construction)**
Request - $2,735,000 grant
Recommendation - No Funding

a. The Applicant proposes to contribute no local funds for the project. The Applicant did not meet TSEP match requirement (50% of the project cost must be provided by the applicant).

b. The application did not provide sufficient details to adequately assess the financial and engineering feasibility of the project.

c. The Montana Department of Transportation Bridge Bureau (MDOT/BB) staff said the bridge could be rehabilitated (as opposed to replaced, as the Applicant suggested).

d. The MDOT/BB staff ranked the safety threat criterion and compliance with state and federal regulations criterion as "least consistent" with statutory criteria for TSEP. This means the bridge is not considered to

be an urgent and serious public safety threat, compared to the other bridges in the state.

23. **Sanders County - Noxon (Bridge Construction)**
Request - $2,156,000 grant

a. The Applicant proposes to contribute no local funds towards the project. Applicant did not meet TSEP match requirement (50% of project must be provided by the applicant).

b. The application did not provide sufficient details to adequately assess the financial and engineering feasibility of the project.

c. The MDOT/BB staff stated that the Noxon bridge would be eligible for federal bridge replacement funds.

24. **Shelby (Storm Drainage and Sewer System Construction)**
Request - $732,000 grant
Recommendation - $366,000 grant (reduce amount to 50% of request)

Rationale to reduce the amount:

a. The Applicant does not qualify for the requested 75% hardship grant because according to the DHES/WQB this is not an immediate health threat situation.

b. The Applicant's proposed rate with TSEP funds (assuming a 75% grant) would only be .81 of 1% MHI, or $17.25 per month per household. Thus, it appears that the Applicant can afford to pay more of the project cost.

c. Additional local funds could be provided through an expanded 4% loan through the State Revolving Fund (SRF).

d. If the Applicant were given 50% ($366,000) of their TSEP grant request the remainder of the project cost ($366,000) could be financed using an SRF loan. At a 4% interest rate over 20 years, this would result in a rate of approximately $21.85 per month per household. This is 1.03 times the 1% MHI rate and well below the 1.5% MHI financial indicator of $31.77 per month per household. According to Department of Commerce calculations, borrowing the additional SRF loan funds would increase the Applicant's per household debt per month by approximately $5.02. (This Applicant has an existing commitment to borrow $244,000 from the SRF)

Rationale to provide TSEP funds:

a. The Applicant has high current debt ($2,574 per household). Private bond underwriters consider a debt per household of $1,500 to $2,000 to be a significant financial burden.

b. Without TSEP assistance, the total debt per household would be $3,151. Private bond underwriters consider debt per household from $1,500 to $2,000 to be a significant financial burden.

25. **Stillwater County - Reedpoint (Sewage System Construction)**
Request - $250,000
Recommendation - $200,000 (reduced amount)

Rationale to reduce the amount:

a. The Applicant only has one proposed rate (sewage system). This area is on private wells and the residents do not have the typical double burden of both water rates and sewage system rates, as do the majority of TSEP applicants.

b. The Applicant does not have any current debt per household. This is below average, in comparison to the majority of TSEP applicants.

Rationale to provide TSEP funds:

a. The proposed bonded indebtedness would be $1,563 per household, assuming the TSEP funded project is approved. Private bond underwriters consider debt per household from $1,500 to $2,000 to be a significant financial burden.

b. Even with TSEP funds included, the Applicant will be at 1.26 times the 1% MHI. This exceeds the 1% MHI financial indicator.

c. The Applicant has a small number of households (50). It would be difficult for this small number of households to finance more debt.

26. **Toole County-Sweetgrass (Water Construction)**
Request - $366,040 grant for construction
Recommendation - $25,000 engineering loan (reduced amount).

Rationale to reduce the amount:

a. According to the DNRC engineering and technical review of this project, the project is not ready to proceed to construction because of deficiencies in the engineering analysis and planning. DNRC staff recommended that any funds to be provided should be used to fund a detailed engineering plan for the project.

b. Additional engineering and planning is necessary.

Rationale to provide TSEP funds:

a. This engineering loan would provide a crucial step in finalizing this needed project so that it can proceed to construction.

27. **Toole County-Sweetgrass (Sewer Construction)**
Request - $162,925 grant for construction
Recommendation - $25,000 engineering loan (reduced amount)

Rationale to reduce the amount:

a. According to the DNRC engineering and technical review of this project, the project is not ready to proceed to construction because of deficiencies in the engineering analysis and planning. DNRC staff recommended that any funds to be provided should be used to fund a detailed engineering plan for the project.

b. Additional engineering and planning is necessary.

c. According to the DHES/WQB, this is not an immediate and serious health threat situation.

Rationale to provide TSEP funds:

a. This engineering loan would provide a crucial step in finalizing this needed project so that it can proceed to construction.

28. **Wheatland County (Solid Waste Engineering Loan)**
Request - $33,000 loan
Recommendation - $33,000 loan

a. This is a serious health threat situation according to the DHES/SHWB.

b. The Applicant is providing $2,000 cash match. (This is not required for an engineering loan under the TSEP guidelines, but it shows additional local commitment to project.)

c. This engineering loan would provide a crucial step in finalizing this needed project so that it can proceed to construction.

29. **Wolf Point (Sewage System Construction)**
Request - $50,000 grant
Recommendation - No Funding

a. This Applicant has low financial need compared to other applicants.

b. The Applicant is ranked low on the affordability index. (Ranked #13 of 15 municipalities. Ranked #26 of 29 applicants.) This indicates the Applicant has a lower relative need for TSEP funds than other applicants.

c. Applicant's proposed rates with TSEP funds included are .86 of 1% MHI, or $15.26 per month. This is under the 1% MHI financial indicator.

d. The Applicant has low debt per household. The current debt is only

$301 per household. The proposed debt is only $633 per household, with TSEP funds included. Private bond underwriters consider debt per household of $1,500 to $2,000 to be a significant financial burden.

e. According to the DHES/WQB, the project does not pose an immediate threat to public health. The project would involve repairing a sewage lagoon dike.

f. The Applicant already has a State Revolving Fund (SRF) loan for $405,400. The Applicant Could borrow $50,000 more from the SRF loan fund, for a total of $455,400 in SRF funds. At 4% interest over 20 years, the resulting rate would be approximately $16.25 per month per household. This would still be below the 1% MHI rate, (it is .92 of the 1% MHI financial indicator). This would increase per household debt per month by $3.24.

30. **Yellowstone County (Bridge Construction)**
Request - $95,500 grant
Recommendation - $95,500 grant

a. The Applicant only has a total of $129,384 in it's bridge fund, but is contributing $47,750 (37%) of it.

b. The Applicant has 64 other bridge repair projects to finance.

c. This was the only TSEP application submitted which included a firm significant commitment of cash match to be provided by a private company with immediate and specific development plans. United Industry Incorporated, a private company, would donate 25% of the cost of the bridge ($47,750).

d. This is a serious safety threat situation. According to projections prepared by the Applicant, the proposed new retail development would cause increases in traffic volume. The new traffic increases would cause additional "bottlenecks" at the old bridge. This would increase the potential number of traffic accidents. The Applicant states that accident rates will triple if the project is not completed.

e. The bridge project has a real potential for assisting local economic development. The area where the bridge is located is prime land for immediate new commercial development. A 400,000 square foot retail development is proposed, assuming access needs such as bridge replacement and street widening can be completed. Of all the TSEP applications, this project has the most immediate and direct relationship to facilitating new economic development.

31. **Yellowstone County (Huntley Water System Construction)**
Request - $100,000 grant
Recommendation - $100,000 grant

a. This is an above average health threat situation , according to the DHES/WQB.

b. The Applicant's proposed bonded indebtedness ($3,064 per household) is very high. Private bond underwriters consider debt per household from $1,500 to $2,000 to be a significant financial burden.

c. The Applicant's rate with TSEP funds is well over 1.5% MHI (it would be 1.76 times the 1% MHI).

32. Yellowstone County (Shepard Water System Engineering Loan)
Request - $100,000 loan
Recommendation - $85,000 loan (reduced amount)

Rationale to reduce the amount:

a. Over 25% of the requested loan (at the $100,000 level) would be for administration. This is a high amount relative to other TSEP applicants. The DOC recommendation for the reduced amount would result in $74,500 for engineering and $10,500 for administration.

b. DNRC staff recommended that this project be funded at the $85,000 level.

c. The DHES/WQB assigned the lowest scores for TSEP statutory priorities #1 (Urgent or serious health problems) and #2 (Violations of state or federal standards). This means the DHES/WQB does not consider the situation to be a serious and immediate health threat.

Rationale to provide TSEP funds:

a. The engineering loan would provide a crucial step in finalizing this needed project so that it can proceed to construction.

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APPENDIX G

EXPLANATION OF THE FINANCIAL NEED ANALYSIS

EXPLANATION OF THE FINANCIAL NEED ANALYSIS

The recommendations for the amount and form of TSEP financial assistance were based on Department of Commerce's (DOC's) analysis of the financial ability of each applicant to share in the cost of the proposed infrastructure improvements. The analysis of financial need for the TSEP competition employed a two-pronged approach based on: 1) the development of an "affordability" index; and 2) the use of additional indicators of financial capacity. Both are explained below.

As part of the TSEP application, applicants were asked to provide information on the Public Facilities Financial Information Form. To assure consistency and comparability of data, DOC gathered additional financial information from readily available, published sources.

Affordability Index

The "affordability" index was developed as a result of a study prepared for the Department of Commerce by an independent consultant, Jim Richard. This report, entitled "Affordability of Major Wastewater Systems for Small Montana Communities," was funded by a grant from the U.S. Environmental Protection Agency. The affordability analysis described in this report produces a single number which defines the relative ability of community residents to pay the costs of additional local government public works improvements. This single number is a summation of a household's total obligation for local government user fees and tax payments divided by the community's median household income. For this analysis, local government user fees include annual water, sewer and solid waste charges. The tax burden is determined by multiplying the total mill levy (which includes municipal or county mills plus education mills) in the county or municipal taxing jurisdiction by the average value of a residence in the jurisdiction. The fees and tax burden were added together and divided by the median household income for the municipality, county, or county census division for unincorporated areas.

In order to make like comparisons, municipalities were compared and ranked against each other. The same was done with counties and county water/sewer districts. To allow a comparison between the three different types of jurisdictions, DOC then applied a mathematical equalizing factor. Construction projects were submitted by 15 municipalities, 8 counties, and 6 county water and sewer districts, for a total of 29 projects. This total does not include three applications received for preliminary engineering loans.

Financial Capacity Indicators

Below is an explanation of the elements used to analyze each community's financial position. Financial capacity indicators for each community were compiled on a separate sheet. See attached example for Yellowstone County/Huntley.

Affordability Rank: #3 of 6 county water/sewer districts/#8 of 29 applicants

Explained above under Affordability Index.

Project Type: **Water**

A one-word explanation of the type of project. In contrast to water and sewer projects, there are no generally accepted standards for determining affordability for projects such as bridges, storm sewers and solid waste projects. Applicants submitting similar projects were compared against each other using additional indicators.

TSEP Request: **$100,000 (13.42% of total project cost)**

This is the amount of TSEP funds requested by the local government for the proposed infrastructure improvement. TSEP matching grants are intended to be used to make needed public facility projects more affordable for local residents by lowering projected user charges or tax assessments to reasonable levels.

Applicants for TSEP assistance must document that the proposed infrastructure project cannot reasonably be accomplished without TSEP assistance and that there are no other methods or sources of funding that would allow the completion of the project at an affordable cost to the applicant's residents. Applicants must document that the level of local financial participation in the project is as great as can be reasonably expected.

Other Funding: **$645,000 (86.58% of total project cost)**

This is the proportion of non-TSEP funds to the total project cost. According to the TSEP guidelines, in order to be eligible for a TSEP matching grant, applicants must provide local matching funds to assist in the financing of the project. This contribution must be in the form of public or private funds (cash or loans) to be provided by the TSEP applicant but includes certain forms of non-TSEP state and federal funds.

According to the TSEP guidelines, applicants may be eligible to receive one of two types of matching grants: 1) a TSEP "Affordability Grant" of up to 50% of the eligible project development costs where indicators of financial capacity clearly indicate that a greater local financial contribution is not feasible or appropriate; or 2) a TSEP "Hardship Grant" of from 51% to 75% of the eligible project development costs in order to help reduce user costs to a more affordable level where deficiencies in a public facility pose a serious threat to health or safety and financial indicators show that higher local financial participation is neither feasible nor appropriate.

TSEP Request/HH: $2,715

This is the amount of TSEP funding requested divided by the number of households served or benefitted by the proposed project. In the case of water and sewer projects, TSEP funds requested are divided by the number of active residential service connections. According to the TSEP guidelines, in no case should the grant request exceed $5,000 per household unless two tests are met: 1) a serious deficiency exists in a facility or system which may have potentially adverse consequences to the public health or safety; and 2) indicators of financial capacity show that higher local financial participation is neither feasible nor appropriate.

1990 Median Household Income: $24,543

This figure is provided by Department of Commerce staff. As explained below, the median household income (MHI) is a key component of the affordability analysis as explained below. It is a standard measurement of the wealth of a community provided by the U.S. Census Bureau.

1% MHI Rate: $20.45

The 1% of MHI calculation indicates how much a community should be willing and able to afford as a monthly per household sewer or water charge. This approach is based on the assumption that the ability to afford a particular user rate is related to the average level of income in a community and that communities with higher average incomes have a greater capacity to pay user fees. Use of the 1% MHI rate calculation allows a comparison of communities. The 1% guideline is based on 1980 MHI levels and construction costs in the 1980's, which resulted in a target 1% of MHI rate of approximately $25 per month.

This 1% of MHI number is derived from U.S. Census Bureau data. This is the annual median household income x .01 divided by 12 months which results in a target monthly per household charge. The 1% indicator has been used for several years by funding agencies such as the Rural Development Administration (RDA, formerly Farmers Home Administration), the EPA Wastewater Construction Grants Program (now the EPA-funded Montana State Revolving Fund), the Montana Community Development Block Grant Program, Montana Department of Natural Resources Water Development Program, and private bonding underwriters, to determine "reasonable local effort" for financing sewer and water projects.

According to RDA, current monthly user charges for recently improved water and sewer facilities are averaging about $30 per month including $5 to $10 for operation and maintenance. This is equivalent to 1.5% of the State of Montana 1990 median household income of $22,988. One percent of this amount divided by 12 months is $19.15. When operation and maintenance costs of $5-$10 are added, this results in a target monthly charge of approximately $25-$30. In making its funding recommendations for the 1993 TSEP application, DOC used 1.0% - 1.5% of the MHI as a general guide to determine reasonable local effort for water and sewer projects.

Current Mo. Rate: $32.50 (1.58 times the 1% MHI rate)

This figure, provided by the applicant, is the current monthly rate per household for the utility for which TSEP funding is requested. As shown in parentheses, DOC then calculated this rate as a percentage of the 1% of the applicant's median household income and compared the result to those of other applicants. In this example, the current monthly rate is a little over half of 1% of the applicant's MHI which is $16.90, suggesting that the applicant's residents could afford to pay a higher monthly water rate.

Rate wo/TSEP: $44.00 (1.35 times the 1% MHI rate)

This figure is provided by the applicant and is based on 10,000 gallons of water consumed monthly per service connection. This amount is a projection of what it would cost per month per household to make the infrastructure improvements if the applicant did not receive TSEP funding and had to obtain the same amount of money by conventional means such as the issuance of revenue bonds.

Rate w/TSEP: $36.00 (1.76 times the 1% MHI rate)

This figure, provided by the applicant based on 10,000 gallons of water consumed monthly per service connection, is an estimate of what the monthly cost per household would be if the improvements are made with the proposed local match and the requested TSEP funds are received.

Proposed Water + Sewer Rate w/TSEP: $36.00 (water) + $15.42 (sewer) = $51.42 (2.51 times the 1% MHI rate)

This is the proposed rate for the utility for which TSEP assistance is requested (such as water) plus the current monthly per household charge for the other utility (such as sewer). These rates are combined to give DOC a picture of the overall burden of water and sewer rates on the community as a percent of MHI.

Current Debt/HH: $69,110/96 households = $720

This information was calculated by DOC staff based on information provided by the applicant, by dividing the current total debt of the county, municipality, or county water and sewer district by the total number of households to be benefitted by the proposed project. DOC analyzed the debt per household in comparison to the other applicants. It also analyzed each application using $1,500 - $2,000 of bonded indebtedness per household for a single utility as the threshold beyond which the debt burden becomes excessive for community residents. This debt to household ratio is an industry norm used by bond underwriters to evaluate the capacity of local governments to incur additional bonded indebtedness.

Proposed Debt w/TSEP/HH: $225,000 + $69,110/96 = $3,064

This information was calculated by DOC staff, based on information provided by the applicant, by adding the applicant's current debt to the debt proposed to be incurred by the local government for the project to be funded with TSEP assistance. This total amount was divided by the number of households benefitted. If the proposed debt was zero, "no new debt" was noted.

Financial Assessment for Statutory Priority #7:

Yellowstone Co./Huntley

Affordability Rank:	#3 of 6 Water/Sewer districts/#8 of 29 applicants
Project Type:	Water
TSEP Request:	$100,000 - 13.42% of total project cost
Other Funding:	$645,000 - 86.58% of total project cost
TSEP Request/HH:	$2,715
1990 MHI:	$24,543
1% MHI Rate:	$20.45
Current Mo. Rate:	$32.50 (1.58 of 1% MHI rate)
Rate wo/TSEP:	$44.00 (1.35 of 1% MHI rate)
Rate w/TSEP:	$36.00 (1.76 of 1% MHI rate)
Proposed Water & Sewer Rate w/TSEP:	$36.00 + $15.42 = $51.42 (2.51 of 1% MHI rate)
Current Debt/HH:	$69,110/96 = $720
Proposed Debt w/TSEP/HH:	$225,000 + $69,110/96 = $3,064

In the affordability ranking, this water and sewer district ranks #3 out of 6 water and sewer districts and #8 out of 29 TSEP applications overall. The district proposes to contribute 80% of the project funding: a $375,000 CDBG grant, a $225,000 in FmHA loan, and $45,000 from local funds. Under this proposal, 96 households would be served by the project. The applicant is requesting TSEP funds to make the water system improvements which would increase their current rates by $3.50. The difference in rates with and without TSEP is an $8.00 reduction in monthly rates with TSEP, which would put them at 1.76 times the 1% MHI rate. The proposed combined water and sewer rate of $51.42 is 2.51 times the 1% MHI rate, a comparatively high user charge. The proposed bonded indebtedness per household is very high compared to other communities at $3,064 per household.

SCORE ASSIGNED: More Consistent - 225 points

FUNDING RECOMMENDED: $100,000

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